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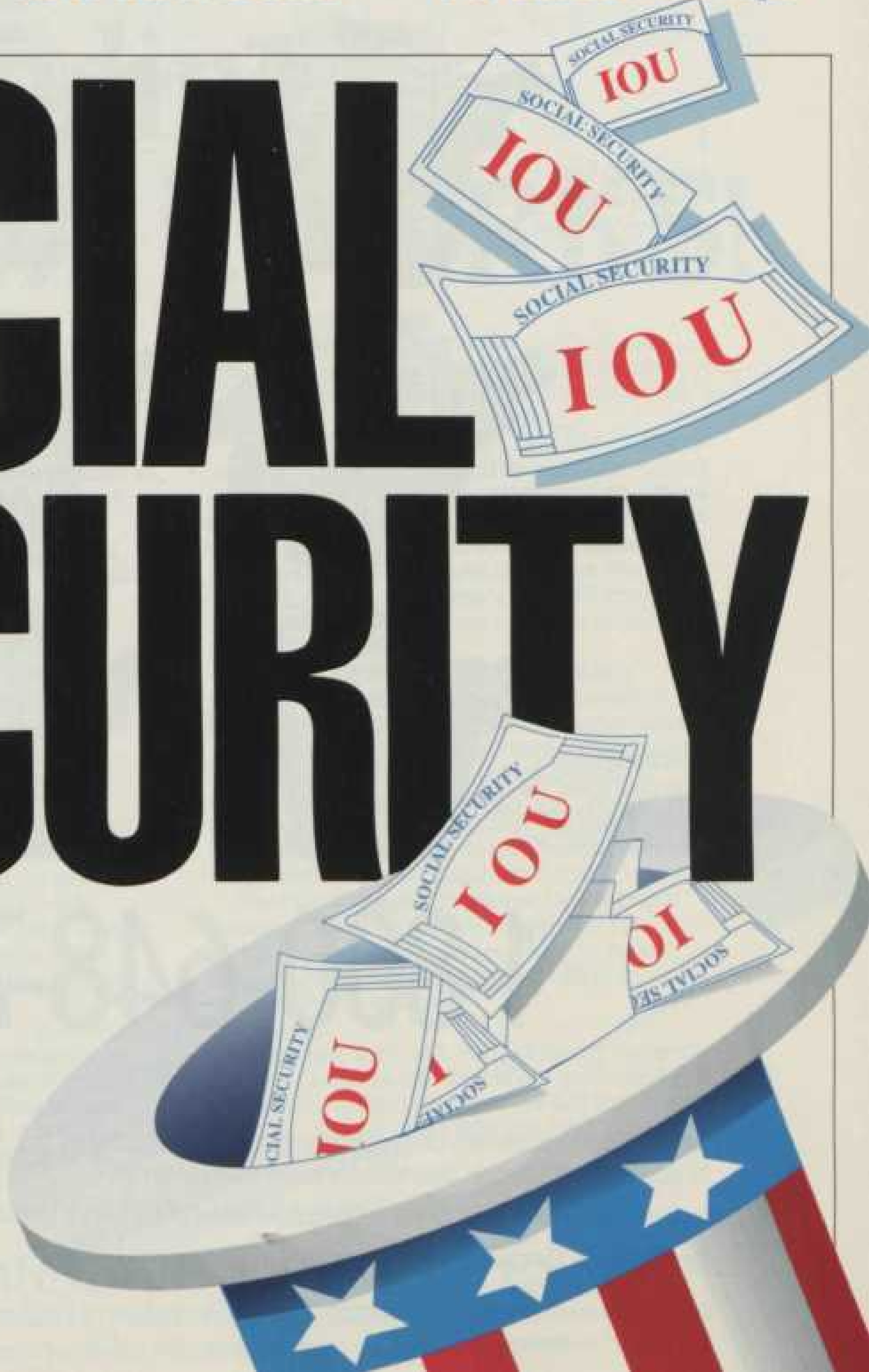

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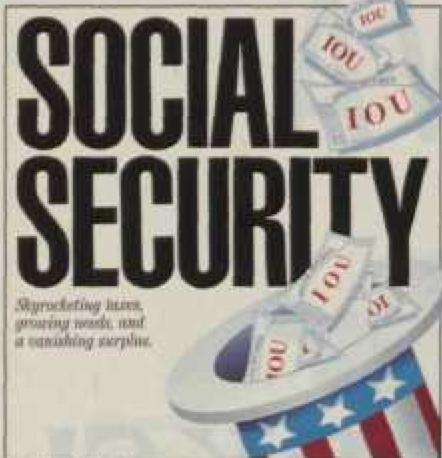

ART: RODNEY LITTLE

Will the money *be there for Social Security to meet tomorrow's rising demands? Cover Story, Page 18.*

PHOTO: MARK RICHARDS—DPI

Electronic data *in the palm of the hand can make firms more efficient. Small-Business Computing, Page 34.*

PHOTO: T. MICHAEL KEZA

The Linigers *built Re/Max into a major force in residential real estate. Leadership, Page 29.*

Published by the U.S. Chamber of Commerce Washington, D.C.

Editor's Note

Small Business's Stake In Social Security

Compare this month's cover with that of November 1974 (shown here) with its headline, "Will The Social Security Bubble Burst?" The two covers 16 years apart give you a good sense of the continuing concern about the Social Security system. Our 1974 story was one of the first to signal looming trouble for a retirement system long considered rock-solid (the story was reprinted by *Reader's Digest* and thus had a major impact beyond our own business readership in alerting the public to the existence of serious problems in the system).

Without hefty tax increases, we wrote, "the Social Security system will plunge into the red in 1980, if not before, and the deficit will build up by billions of dollars a year." The maximum tax paid by employers and employees was $772 each in 1974, and the official projection called for it to reach the staggering sum of $1,857 in just six years. As every employer knows, it's now more than twice that amount.

Runaway escalation of Social Security taxes is behind the current drive by small business for a reduction. The full amount of the Social Security tax applies to the first dollar of payroll, and it falls heaviest on the labor-intensive companies found mostly in the ranks of small businesses. These taxes are no respecters of profitability, and as one small-business representative pointed out, "they must be paid from Day 1, regardless of whether the business is flourishing or foundering."

This argument grows stronger in direct proportion to the size of the payroll-tax burden.

While the current high visibility of Social Security is the result of a specific tax-cut bill introduced a few months ago, that move can be properly understood only in the larger context of events beginning with the creation of the system 55 years ago.

Hard questions are being raised on whether this limited plan enacted in the Depression of the 1930s can meet the requirements of 21st-century America—or should be expected to meet them. This month's cover story should help you answer those questions—and it might suggest some points that you might want to raise. After all, decisions made on this issue will go straight to your bottom line.

Robert T. Gray

Robert T. Gray
Editor

PHOTO: ROBERT HOLMGREN

Designing inspiration: *Celia Tejada's fashions recreate the look and feel of her native Spain. Making It, Page 14.*

DEPARTMENTS

Cover Design: Wendy Kelly
Cover Illustration: Rodney Little

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Letters

The Energy Outlook

Your February cover story—"A New Energy Crisis?"—is an early warning. You are ahead of most of the media, but the nation itself is way behind.

We have created a structure that makes lead times for power plants too long. This has made investment in them speculative rather than conservative.

It has become a game. On one side

PHOTO: ©STEVE OGDEN—TOM STACK & ASSOCIATES

are the activists who claim that by conservation, efficiency, and solar energy, we won't need any more power plants; and on the other side are the free-market ideologues, who have opened this highly capital-intensive, long-term, and vital infrastructure-investment area to quick-buck schemes. As a result, the meager list of power plants now planned or under construction, largely by cogenerators or independent power producers, shows that 90 percent will burn gas. That's a lot of our energy eggs in one basket.

A. David Rossin
Visiting Scientist
University of California
Los Altos Hills, Calif.

[Editor's Note: Dr. Rossin was assistant secretary of energy for nuclear energy from 1986 to 1987.]

This article correctly notes that our country faces a serious shortfall in electric-generating capacity during the 1990s. However, the article does not discuss a primary solution to the problem: cogeneration of power by nontraditional utilities.

Cogeneration plants produce electricity and steam for industry and sell all or part of it to electric utilities. They have blossomed since 1978, when Congress removed the statutory barriers to this form of electricity production.

Unfortunately, the Depression-era Public Utility Holding Company Act still prevents companies from building 100-percent electric wholesale power-generating facilities in this country. Progressive utilities support reform, but others deny its benefits of greater supply options in the industry.

Removing the legal barriers to the construction and operation of these facilities is an essential part of the solution to our electricity shortage.

E. Joseph Hillings
Vice President, Federal Government Affairs
Enron Corp.
Washington, D.C.

The article repeatedly suggests that energy policies "must balance energy needs with environmental concerns." This implies that ensuring adequate supplies to meet demands will require less vigorous environmental protection efforts. This ignores the fact that current policies and practices are already out of balance, at the expense of both the environment and the economy.

Energy-research centers such as the Rocky Mountain Institute, the American Council For An Energy-Efficient Economy, and the Alliance To Save Energy have demonstrated that a policy with conservation and energy efficiency as its cornerstone is the most environmentally and economically sound. Economic benefits include cost effectiveness, job creation, community economic development, improved international competitiveness, increased technological innovation, and overall capital availability. While there clearly will be changes required for business in moving to a dramatically more efficient economy, these are likely to be far less wrenching than the article implies.

Gordon P. Rands
New Brighton, Minn.

Below The Surface

Your article "Fuel-Tank Insurance: Required But Scarce" [Small-Business Update, January] provided an excellent overview of a major problem facing many retail gasoline marketers [the problem of obtaining liability coverage for tanks in time for this year's federally mandated deadlines].

Conoco was also faced with this challenge, but through our people's efforts and those of broker Dennis Lang & Associates in Dallas, we were able to de-

velop a comprehensive and competitive insurance program for our jobbers and their dealers.

The program is designed to exceed the Environmental Protection Agency's requirements for financial responsibility, and it offers many benefits to our jobbers and dealers that would not have been available to them otherwise. Jobbers are independent business people who own their own facilities, and we supply them products and services under a Conoco franchise agreement.

David O. Kem
General Manager
Marketing, North America
Houston

To Breathe—Free? Or Freely?

My, my! Such grammar!

The February issue carried an article called "Yearning to Breathe Free."

You can't breathe "free." You either breathe "freely" or not at all. The grammar might be correct if it referred to breathing in a politically free air.

It never ceases to amaze me that so many in the written media profession have failed to learn correct English grammar. I see similar errors in daily newspapers regularly. Such is comparable to a certified public accountant not being able to add or subtract.

R.A. Schmitz
Board Chairman
Albert Paper Co.
Stockton, Calif.

[Editor's Note: We refer to this usage as an "echo" headline, one that calls to mind some well-known phrase or statement. In this case, the headline was an echo of Emma Lazarus' poem, "The New Colossus." Its most famous lines appear on the base of the Statue of Liberty and include these: "Give me your tired, your poor/Your huddled masses yearning to breathe free." In that context, "breathe free" meets reader Schmitz's exception on politically free air. Our use of the term in a literal sense did stretch the point.]

Keep Health Care Commercial

December's "Where I Stand" poll offers sufficient evidence that paying for health care is a hot topic. We often read that more than 30 million Americans have no coverage. Health costs rise faster than the consumer price index. Polls find the majority of people dissatisfied with the system.

And what is suggested? A 100-percent tax-supported system, so we can get rid of billing and collection costs and wasteful practices like marketing.

Those who recommend that government become the sole purchaser of medical care would destroy a system that serves 85 percent of the people, to provide care for the other 15 percent. It seems far more logical to attack the problem for the uninsured by extending Medicaid, or creating state risk pools.

Today we are free to support a system that provides for innovation, competition, and progress. Do we really want to give it up?

Betsy Gelb
Professor of Marketing
The Institute for Health Care Marketing
University of Houston
Houston

Fuel By The Pellet

I have read with interest the December article "From Sawdust To Sawbucks." *[Editor's Note: The article reported on the founding and success of Modular Energy Co., which manufactures wood pellets as fuel for stoves. An executive of a stove company was quoted as saying that MEC is the sole source of wood pellets on the East Coast.]*

My company, Green Mountain Pellet Inc., has been in production of pelletized fuel for the past three years. Pelletized fuel is made from many kinds of waste, such as sawdust, oat hulls, sunflower seeds, cardboard, and peanut shells. Our pellets are made from cardboard and sawdust.

In these years of the "landfill crisis" in this country, it behooves us all to utilize our waste in any way that makes sense both environmentally and economically. Some pellets burn so efficiently that no conventional chimney is needed; they are vented through an outside wall.

Patricia B. Irish
President
Green Mountain Pellet Inc.
Burlington, Vt.

Coverage Compliments

Thank you and your staff for publishing such an excellent magazine. As a principal in a small, family-owned business, I find your articles on small and family-run business very informative and extremely accurate.

I religiously read *Nation's Business* each month and often cut out articles for circulation within my family and organization.

Paul J. Hobaica
The Pool and Spa Center
South Easton, Mass.

The Hard Road Is The Best Road

By Robert Slass

Profiles of American entrepreneurs from the first half of this century are portraits worth repainting. More concerned with making beans than counting them, they preferred the whir of machinery to the boring hum of the front office. They were tinkerers, shirt-sleeve individuals who depended on sheer will and muscle to shape steel. On the marketing side, they directed that same determination into the successful selling of their products. Through it all, they made the hard decisions, chose the tough routes, and never looked back.

I was weaned on stories of famed engineers such as Charles Kettering, whose research led to commercially successful breakthroughs, including ethyl gasoline and the electronic ignition for automobiles. I was always impressed with the dogged determination and the "can-do" attitude that he and all those early giants displayed. Those of us who strive each day to carve out an existence through manufacturing have surely drawn upon such inspiration at critical junctures in our companies' lives.

Such a time emerged about five years ago for Rotor Clip Co., where I am president and CEO. We had been holding our position as a low-cost, quality supplier of retaining rings, the metal-stamped fasteners used in the automotive and other assembly-line industries. It would have been easy to maintain our traditional production and selling techniques, but business was clearly changing, and the implications of such change could not be ignored.

The area that needed the most updating was quality control. By this time, Japanese manufacturers' success with such techniques as statistical process control—or SPC—was well-documented. SPC is a statistical approach to monitoring a process with the use of graphs so that subtle changes can be detected and adjustments can be made before an unsatisfactory part is produced. This is in contrast to the former concept of quality control, which relied on inspection of parts after they were produced—when it was too late to make any meaningful adjustment to the process.

I asked myself, should I make the investment in time, training, and equipment to enhance our quality-assurance operation, or should I leave well enough alone? Even more than the dollar investment, could I realistically expect my employees to wholly embrace such change?

I decided to take the hard road; I instituted statistical analysis and quality controls. Fortunately, the benefits have been enormous. Today, Rotor Clip has one of the most modern in-process quality-assurance programs of any manufacturer in the retaining-ring industry.

Supervisors, managers, and employees have responded positively, joining together in a continuous effort to make this program work. To date, Rotor Clip's quality-assurance program has received a General Motors "Mark of Excellence" flag and plaque for our outstanding performance in the "Targets for Excellence" survey conducted for three days at our plant last year. We are one of only about 100 GM suppliers to receive this distinction.

We also hold three Ford Motor Co. Q1 awards (named for Ford's "Quality is Job 1" program) and a "Quality Excellence" award from Chrysler Corp.

Another critical concern was the disposition of profits. Planning for the long term requires investment in equipment, personnel, and facilities, and that means heavy outlays of cash. Before making such an investment, I asked myself if it would pay off, or would it be better to play it safe and not plan too far ahead?

I believe in constant improvement and a shirt-sleeve approach to the business components of manufacturing. . . . I believe those qualities that were thought to be old and out-of-date are now the new and sought-after.

Again I thought the hard road—investing both personnel and dollars in the company's long-term future—offered the greater hope of success. Several years ago, I updated our engineering department by installing the latest CAD/CAM equipment for each of our engineers. It was a heavy investment for us at that time, but the benefits have more than paid for the initial outlay. Now, we can respond to the tooling needs of our customers more quickly and produce dies and punches more accurately than ever before.

Later this year, we will officially open our new 44,000-square-foot addition, which was financed from a percentage of Rotor Clip's annual profits. Work on the building has caused me more sleepless nights than I care to recall, but the new space will increase our production capacity and enable us to perfect the processes we now use to make retaining rings. We will also be fully prepared to handle our customers' future requirements. In this context, I view the decision to invest profits in this manner as a sound one.

Like my industrial predecessors, I am an "old-line" capitalist interested in the making and selling of a product. I believe in constant improvement and a shirt-sleeve approach to the business components of manufacturing. Some people may argue that such thinking is outmoded, but I believe those qualities that were thought to be old and out-of-date are now the new and sought-after. We must rekindle this spirit if we are to remain competitive in global manufacturing.

We must choose the hard road.

Robert Slass is president and owner of Rotor Clip Co. Inc., in Somerset, N.J.

Readers are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

Small-Business Update

Early intelligence on resources to help you take advantage of the changing business climate.

ENVIRONMENT

Clean-Air Amendments Estimated At $54 Billion

The Senate is debating amendments to the Clean Air Act that could require small businesses to implement huge new technical and operational changes for pollution control.

"In most cases, small businesses never had to comply with environmental regulations before. They're not even in the compliance loop, whereas big business is in the loop," says Mary Bernhard, manager of environmental policy at the U.S. Chamber of Commerce.

"Small sources" of air pollutants—such as dry cleaners, bakeries, auto-repair shops, print shops, and funeral homes—could be required to obtain operating permits, install pollution-control equipment, monitor emissions continuously, and meet new paperwork requirements on air hazards.

The Business Roundtable, an organization of CEOs that examines public-policy issues, recently released a study showing that implementation of the current Senate bill could cost business $54 billion per year, in addition to the $32 billion already spent by industry on pollution control. The group says the $54 billion is a "best estimate" and could rise or fall depending on the combination of amendments that actually pass. The study did not calculate the costs that small business alone would bear, but Bernhard says they "hit disproportionately harder on small businesses, even if the numbers are smaller."

A small dry-cleaning firm, for example, may incur the same pollution-control costs as a larger business, Bernhard says, but the costs drain the lower revenue of the smaller firm more quickly.

PHOTO © MATTHEW BORKOSKI—FOLIO INC.

Printing shops, *bakeries, dry cleaners, and other small firms could face major costs for pollution-control measures under consideration in Congress.*

MERGERS

Market For Selling Midsized Firms Expected To Stay Strong

The market for selling privately held midsized companies will remain strong during 1990, says Ronald J. Speyer, a division president for The Geneva Companies, in Irvine, Calif. An estimated 20,000 privately held middle-market businesses are expected to change hands this year, an increase of 8 percent over the estimated 18,500 midsized businesses sold last year, he says.

Midsized privately held U.S. businesses valued to $250 million continue to be highly prized acquisition targets in the eyes of global buyers.

Speyer notes that strategic buyers are actively seeking middle-market acquisitions, especially businesses with credible documentation of their earning potential, dividend-paying capacity, and growth prospects.

SMALL BUSINESS ADMINISTRATION

Federal Agencies Target Rural Business Growth

Small businesses in rural areas will receive extra help from the Small Business Administration and other federal agencies under President Bush's initiatives for rural development.

The rural-development plan focuses on job creation. "Our plan is to help small businesses work the same miracle for rural areas that they've worked for the American economy as a whole," said SBA Administrator Susan Engeleiter. Small businesses nationwide have created two-thirds of new jobs in the past decade, according to SBA.

SBA will work closely with the U.S. Department of Agriculture to enhance the availability of capital to rural businesses, through SBA's loan-guaranty program and through small-business investment and lending companies. The agencies hope to improve access to training and counseling for rural business owners at the 600 small-business development centers in 49 states.

Business education in rural areas is a major focus of the plan. SBA and the U.S. Department of Education will work on ways to help rural business communities train and retain high-school students after graduation. Rural community leaders would receive training in economic development.

SBA plans to conduct pilot seminars in exporting for rural business. The training will include "how-to" materials for business owners, and it will enable federal and state export specialists to meet with business owners.

SBA's initiatives are based partly on research showing that rural regions experienced job growth at only 35 percent of the rate of urban regions from 1980 to 1986.

CITIES

PHOTO: ©ACEY HARPER

Boca Raton *is one of many Florida cities that lead the nation in the rate of population growth, which usually is a forerunner of business opportunities.*

Florida's Growth Hot Spots

Since 1980, Florida's metropolitan areas have been the undisputed national champions in growth rates. Although big cities such as Los Angeles and Dallas have gained more in numbers of people, eight of the 10 fastest-growing metro areas from 1980 to 1988 are in the Sunshine State, says the Census Bureau.

In descending order they are Naples, Ocala, Fort Pierce, Fort Myers-Cape Coral, Melbourne-Titusville-Palm Bay, West Palm Beach-Boca Raton-Delray Beach, Orlando, and Fort Walton Beach.

Austin, Texas, ranked No. 7, and Las Cruces, N.M., was No. 10.

Growth such as that occurring in Florida usually offers a bonanza of business opportunities, especially in real estate, insurance, finance, and retailing.

TAXES

Small Business Presses For Restoring Estate Freeze

Restoration of the estate-freeze technique for enabling a family firm to be passed to the next generation is "one of the major tax issues of 1990," says John K. Carson, tax attorney for the U.S. Chamber of Commerce.

Small business is making another major effort in Congress to restore the freeze method of valuing estates. Under the freeze, appreciation of a business could be assigned to common stock held by heirs, while the value of a parent's interest rested in preferred stock reflecting the value of the business at the time of issuance.

Estate taxes are levied on the value of the preferred stock, which does not reflect growth from the point at which it was issued. If, as often occurs, the common stock is given by the parent to the heirs, then gift taxes become due.

Several members of Congress are sponsoring legislation to repeal the tax code's Section 2036(c), which eliminated the estate freeze. Carson says that as an alternative to repeal of Section 2036(c), the Treasury Department is likely to propose a measure that would focus on alleged "gift-tax valuation abuses" in the transfer of family businesses. Such abuses were the original targets of Section 2036(c). "These efforts to stop gift-tax abuses resulted in a law far greater in scope than necessary, which has hurt family businesses," Carson says.

Without the freeze method, the tax specialist says, "parents will often leave their children an estate that can incur huge taxes, ranging from 37 percent to 55 percent on all assets above the $600,000 estate-tax exclusion. If an estate does not have sufficient cash to pay the taxes, or if the heirs cannot afford to buy the business, the business or much of its nonliquid capital assets may simply have to be sold."

The issue of repeal will most likely emerge as part of a budget package in the House Ways and Means Committee, and not as a separate bill, Carson says. The committee probably will focus on the budget in late spring or early summer, he says.

WOMEN IN BUSINESS

Credit And Contracts

The Small Business Administration is sponsoring two series of regional conferences for women business owners—one on getting access to credit and the other on how to get federal government contracts.

"Our goal at SBA is to increase the percentage of federal contracts to women-owned firms from the current level of 1 percent to 5 percent by fiscal year 1993," says Susan Engeleiter, SBA administrator.

The credit conferences will be in Newark, N.J., May 17; Dallas, Sept. 15; and Atlanta (date to be announced).

The procurement conferences will be in Sioux Falls, S.D., April 2-3; Houston, April 3; Dallas, April 5; Salina, Kan., May 16; and Tulsa, Okla., Sept. 21.

The credit conferences are designed "to help women learn the skills and acquire the information they need to secure credit," says Engeleiter.

For further information, call the SBA at 1-800-368-5855, or contact your regional SBA office.

NB TIPS

Complying With The New Wage Law

✔ *How To Comply With The New Minimum Wage Law* is a new pamphlet from the U.S. Chamber of Commerce that provides useful details on the recently enacted statute. It explains the effective dates of the increases, the new training wage, and the tip credit. It tells which companies are exempt from the law, and it describes the reporting requirements and the penalties for willful violations.

The publication also answers some of the most commonly asked questions about the new law.

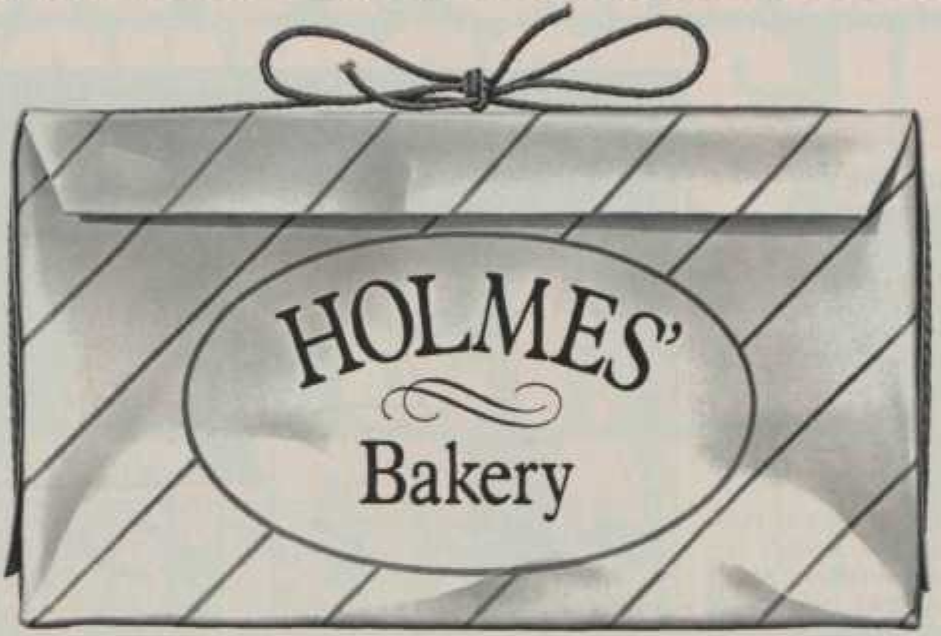
To order a copy of the pamphlet, call Publications Fulfillment at 1-800-638-6582. In Maryland, call 800-352-1450. Give Order No. USCC-2012. There is no charge for orders of fewer than 100 copies. For 100 copies or more, the charge is 10 cents for each additional copy.

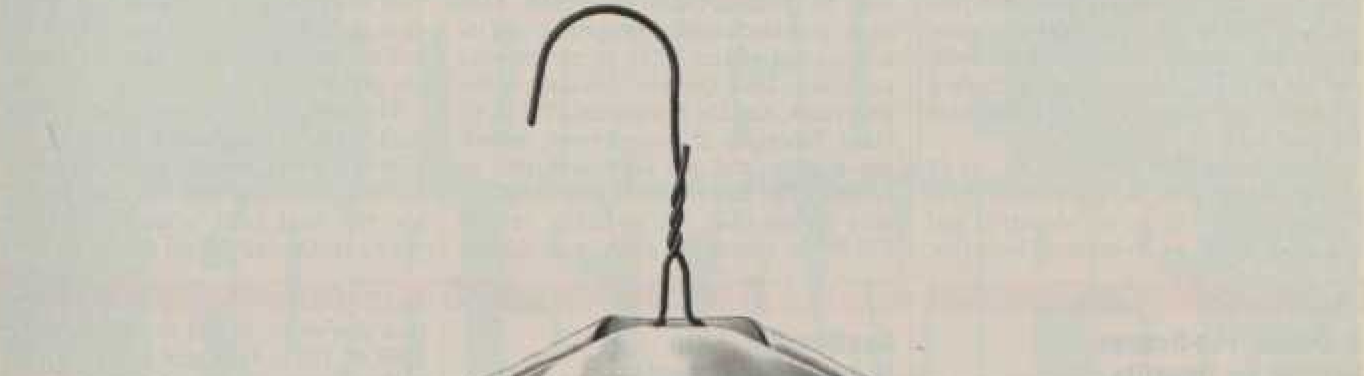
Budget Shelf Busters

✔ Would you like to have your own copy of the new federal budget? You can order it from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402-9325. It's a 2-inch-thick volume of nearly 1,600 pages. The price is $38. Specify order processing code 6764.

You also can obtain a copy of the federal budget at one of the 24 Government Printing Office bookstores across the country. Nearly all are in major cities. NB

The Allstate agent who insures homes and autos also insures Holmes' and Otto's.





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SPENDING/TAXES

A Taxpayer Perspective On The Federal Budget

The average American family will pay $12,938 in federal taxes to cover spending proposed in the 1990-91 budget now under consideration in Congress, according to estimates by the Tax Foundation. The Washington-based nonpartisan research and education organization, founded in 1937, monitors fiscal issues at all levels of government.

Under the budget submitted by President Bush, the average family's tax payment will be spent as follows: $4,237 for income security, which includes Social Security, welfare, federal workers' pensions, and unemployment compensation; $3,070 for national defense; $1,751 for interest on the federal debt; and $1,643 for health care, including Medicare for the elderly and Medicaid for the poor.

Those categories total $10,701, or 83 percent of the total tax payment. Of the balance, $415 will go to education and training, $307 to veterans' benefits, $302 to transportation programs, $184 each to environmental programs and international affairs, $174 to commercial activities that include housing-credit programs, and the remaining $671 to all other functions of government, including science and the administration of justice. The tax-research organization also notes that, in addition to the $12,938 in taxes, the average family of two working parents with two dependent children will also incur a $718 obligation through borrowing to finance the deficit.

The computations are based on President Bush's proposed budget of $1.2 trillion. While Congress might revise various spending and revenue proposals, the final total is not expected to vary substantially from the Bush plan.

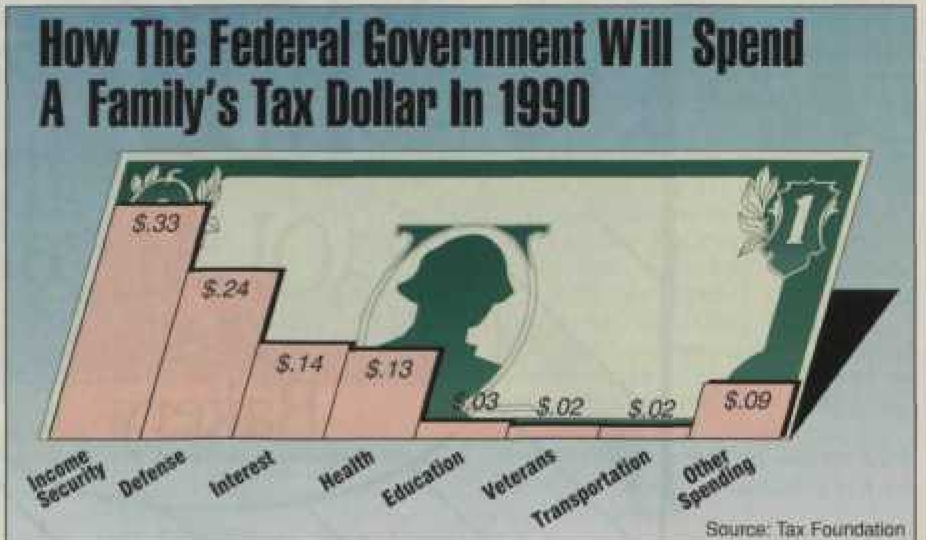

CHART: MARCY MULLINS

BENEFITS

A Behind-The-Scenes Outlook On Benefits

Congressional staff members often know more about the details of important issues than the representatives or senators they work for, enabling them to be influential behind the scenes. With this in mind, the Employers Council on Flexible Compensation, a nonprofit Washington organization, polled senior staffers in 152 congressional offices concerning benefits issues. The findings:

- Ninety-one percent favor tax deductions for businesses that provide child-care benefits to employees.
- Fifty-six percent think Congress will pass legislation this year to control the rising costs of health care.
- Seventy-five percent of staff members surveyed in House offices and 66 percent in Senate offices believe Congress will not set a limit on the dollar value of benefits, such as health care, that employees may receive tax-free.
- Sixty-nine percent say mandated health-care coverage is unlikely this year.

HEALTH CARE

Another Big Jump In Health-Care Costs

The cost of employer-paid medical insurance plans soared 20.4 percent last year to a record high of $2,600 per employee, according to an annual survey by the benefits firm of A. Foster Higgins & Co., based in New York. When dental plans and health-maintenance organizations are included, total health-benefit costs per employee rose to $2,748.

John Erb, a managing consultant and one of the study's authors, estimates that the average cost of total health benefits this year will surpass $3,200—a 16-percent rise from 1989.

The survey collected data from 1,943 employers; most were large and mid-sized companies. Those with more than 40,000 employees had the highest costs, averaging $3,187 last year, up 22 percent from the year before.

Those with fewer than 500 employees had the lowest costs: Expenses per employee averaged $2,646, up 17 percent from the $2,256 average for 1988. In previous years, figures for firms of that size were: $1,942 in 1987, $1,861 in 1986, $1,723 in 1985, and $1,637 in 1984.

Employers cited medical price inflation as the most significant factor driving up costs last year.

The highly unionized utilities and communications companies in the survey reported the highest per-employee costs—$3,366 and $3,341 respectively. Wholesale and retail employers had the lowest per-employee costs—$2,146.

INTERNATIONAL TRADE

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Making It

Growing businesses share their experiences in creating and marketing new products and services.

PHOTO: ©ROBERT HOLMGREN

Born in Spain, *San Francisco designer Celia Tejada recalls her native land through her line of colorful, comfortable clothing.*

Clothes That Say Ole!

Since childhood, Castilian-born fashion designer Celia Tejada has carried a secret vision of Spain inside her. Three years ago, she translated her vision into a contemporary American clothing line.

At 31, Tejada is the founder, designing inspiration, and principal of Celia Tejada Inc., a San Francisco-based company that recreates the distinctive look and feel of Spain for the American consumer.

Through such clever details as fringe balls, bold trim, and fanciful buttons, Tejada subtly weaves the fabric of life in the Costa del Sol into comfortable, sophisticated separates. Her line is carried by more than 300 specialty stores nationwide, as well as by three upscale department stores in California.

Tejada has always possessed a strong sense of herself and her goals, but her rise from obscurity in a notoriously cutthroat industry has not been without anxiety. For example, when she traveled to New York in 1987 for her first design show, the airline misplaced her samples. The clothes materialized just hours before buyers arrived to place their orders—which exceeded Tejada's wildest projections. She flew home giddy with success.

Born in a tiny village in northern Spain, Tejada demonstrated an early affinity for design. "I was constantly rearranging furniture, getting beds stuck in the middle of the room," she says in fluent, rapid-fire English. Over family objections (they wanted her to become a teacher), she attended an internationally recognized design school in Bilbao, receiving the equivalent of a bachelor's degree in interior design.

In 1978 she began to live her dream, working as an interior designer in Marbella, Spain. The following year, Tejada took another calculated risk and moved to the U.S., even though she spoke no English.

Two years later, she was working for a San Francisco interior designer who wanted to broaden her studio's offerings to include retail items. She suggested that Tejada extend herself into fashion, and Tejada came up with a sweatshirt that combined what looked like a tic-tac-toe design with the Italian for "kiss me." The sweatshirt was promptly picked up by I. Magnin for a Valentine's Day promotion.

In 1986, with more such successes to her credit, Tejada decided that "I knew enough to start my own business, and I

took the plunge." Charles and Diane Moore, local real-estate developers and brokers—and enthusiastic admirers of her work since 1982—offered to back her solo effort. She spent the next six months working feverishly in her remodeled basement, designing her logo, conducting market research, constructing price points, and devising a cash-flow program.

"The concept was clear from the beginning," Tejada says. "When I first came to America, I was shocked by how Americans dress—it's much more traditional than in Paris or Madrid."

Tejada blocked out her product line, she says, based on a Spanish attitude toward leisure time. "In Spain we have a saying: 'The mornings are for sport, the afternoons for relaxation, and the nights for parties.'" Accordingly, she planned at first to launch three interwoven lines: Tejada Deporte (sportswear), De Siesta (very casual wear), and De Fiesta (evening wear). After market testing, though, she started with just one line, Deporte. In 1988, she added Signature Sportswear, a higher-priced, dressier line with heavier Spanish design elements. Both lines are doing well—*Cosmopolitan*, *Seventeen*, and *Women's Wear Daily* have all run photos of her designs.

As Tejada's business has grown, she has started to delegate responsibilities. "Starting a company from scratch," she says, "it's not easy to find people willing to wear many hats. In the beginning, I handled all the marketing, design, and production, and a customer-service person doubled as secretary." After two years of a punishing schedule, Tejada increased her staff to four: a customer-service representative who is computerizing the company's accounts receivable and inventory lists; an order-fulfillment and production assistant; a seamstress who creates the prototypes and samples; and a marketing director who meets with wholesale representatives in five cities.

Says Tejada: "Having a staff I can depend on frees me to study the market and develop the lines, which change constantly. In the fashion industry, there are not four seasons but 12. We're continually shipping new pieces to keep the collections fresh."

As she moves animatedly amidst the sartorial splendor in her studio, Tejada shares her credo for becoming an entrepreneur: "Follow your heart! In any field, you're going to have challenges, but when you find something you love, you can rise above any mountain. Some days I work 15 hours and I'm dead, but then I go home and I smile."

—*Marcia Pear*

Keeping A Step Ahead

Princeton Book Co., Publishers, has found a way to keep a step ahead of the competition. Under the direction of Charles H. Woodford, 56, its founder and president, the 15-year-old Pennington, N.J.-based firm specializes in books and videos about dance—everything from classical ballet to modern and folk styles.

Specialization has paid off. With $1 million in annual sales and yearly growth averaging 20 percent, Princeton Book Co. is the largest dance publisher in the world. Its closest rival is Dance Books Ltd., a British company with which Woodford has a reciprocal distribution agreement.

PHOTO: ©BRYAN ALLEN

New Jersey publisher *Charles H. Woodford built a dance-book firm.*

Before launching his own company, Woodford spent 15 years working in publishing in New York. Starting as a salesman of college textbooks for Harper & Bros., he had risen to senior editor and marketing director in the college-textbook department at Dodd, Mead & Co. when a corporate restructuring eliminated his position. It was then that he decided to go into business for himself.

On the day he opened his doors in 1975, he had only one manuscript—but as luck had it, that book became a best seller for the company. A textbook written for classroom teachers and student teachers, *Making It Till Friday*, by James D. Long and Virginia H. Frye, is now in its fourth edition. (Although 90 percent of its titles are now related to dance, Princeton Book started out concentrating in the fields of education, physical education, and recreation.)

Woodford brought out his first dance book in 1978. "Several factors—the increasing number of programs on television devoted to dance and the nationwide physical-fitness boom, for example—caused a tremendous explosion of interest in dance," he says, "and I saw it as an underpublished field."

From an annual average of three to five titles in its first few years, the eight full-time employees of Princeton Book now publish 15 to 20 titles a year, including several dance videos. The firm produces its own videos and distributes selected videos from other companies. Its video offerings range from historical material, taken from old films, to instructional tapes.

One of Woodford's most successful innovations was the Dance Book Club, a mail-order business that he started in 1977 to help the publishing company grow and to create a stable demand for its materials. The Dance Book Club currently has 3,500 members, who receive a newsletter 13 times a year. Each time they are offered at least two new titles, published by Princeton Book and other companies.

In 1986 Woodford purchased Dance Horizons, a 20-year-old publishing company. Along with the rights to almost 150 titles, Princeton Book acquired the Dance Horizons imprint, which it now uses for all of its dance books and videos.

Overall, Woodford estimates, his sales break down as follows: college textbooks, 47 percent; book club, 33 percent; trade, 7 percent; library, 8 percent; and dance events and conferences, 5 percent. One of the company's best-selling textbooks is *Ballet and Modern Dance*, by Jack Anderson, dance critic of *The New York Times*. That book sells 4,000 to 5,000 copies every year.

Although many books have notoriously short shelf lives, Woodford has discovered that works on dance seem to have a particular longevity. "People who are in the field seem to treasure the books," he says, pointing out that many titles first published as far back as the 1930s—or even earlier—are still in demand from Princeton Book, which does a large reprint business.

Woodford looks forward to continued growth in the demand for works on dance, thanks to such developments as the budding trend to bring dance into the public schools' curricula. Although he is quick to point out that not all of his ideas have been successful (one failure: mail-order dance-related gifts), he says he has proven that "specialty publishing can be very successful—as long as you are lucky enough to pick the right specialty."

—*Barbara E. Thornbury*

Island Dreams

When Charlene Mae Ku'Upua Ala Thompson was a little girl in Honolulu, she did what nearly every Hawaiian child does: She learned the dances of her culture. Little did she know that one day, those dances would make her, well, affluent.

"Cha" and her husband, Jack, own Tihati Productions, Ltd., a Honolulu company that stages Polynesian extravaganzas and supplies other entertainment for major hotels and conventions throughout the Hawaiian Islands. They have put on shows based on such themes as "Raiders of the Lost Ark" and "Gilligan's Island." They send a Polynesian show to tour Europe every year. And they have the clout to hire such names as Bob Hope, Nell Carter, and Smokey Robinson.

While they won't reveal revenues, they hint that the 21-year-old company has topped $8 million annually. With 600 employees, Tihati is twice the size it was just three years ago. "I really am embarrassed," says Cha, quick to laugh at herself. "These figures scare the hell out of me. I mean, I'm a girl from the tenement housing."

Jack's life sounds like something out of a novel. "I was born on a tiny atoll in the South Pacific," he begins. In the 1880s, his great-grandfather, Eli Jennings, a sea captain from New York's Long Island, sailed the South Pacific, where he met and married a Western Samoan princess. He learned of an island 240 miles north of American Samoa and claimed it for his own. Swains Island is still in the Jennings family, but in 1951, when Jack was 6, his parents sent him to school in Hawaii, where he has lived ever since.

Between the two of them, the Thompsons sound like a meeting of the United Nations. Jack's ancestry is American, English, Samoan, Spanish, and Tokelauan. Cha is Hawaiian, Scotch-Irish, English, Filipino, Chinese, and Spanish. Her parents were divorced, and her mother raised not only Cha but eight brothers and sisters as well.

For Cha, dance was a way out of poverty. But she remembers her first "professional" appearance ($10 under the table) at about age 8 as humiliating. "I danced for white people, and I thought, 'Why am I dancing for them?' " Until then, the traditional dances had been something she had done for other Hawaiians, for fun or "in reverence." Everyone understood the dances. But when she danced for this new audience, the movements had to be explained. "Somebody would always say, 'And now, the flowers from the mountain . . . and the rain . . . ,'" Cha recalls.

"I thought, 'How come we have to tell them what we're doing?' It didn't sit right with me." But as time went by, "I realized that dance was the best way to perpetuate my heritage." And she discovered that the visitors to Hawaii "loved it so much, and they weren't ridiculing me!"

Jack and Cha were dating in the late 1960s when Cha was the lead dancer for a popular Polynesian show. Tired of waiting for her to get off work every night at 3 a.m., Jack said, "I'm Polynesian. I should learn to do this." And so he did, making his debut with a dramatic fire-and-knife dance and adopting the stage name "Tihati."

The Thompsons' big break came in 1969, when Jack, then a part-time host at the Duke Kahanamoku night club, was asked if he could put together a show to fill in while Don Ho was on vacation. Jack says he had to "beg" Cha to help—she was already "dancing big time with all the famous Hawaiian singers at the time." The first Tihati Revue was a success, and the Thompsons incorporated the next year.

They found that prejudices against entertainers and against Polynesians would hound them, especially at negotiation time. Entertainers are looked on as lacking in business savvy or "as people that are always into drugs," says Jack. And Polynesians, says Cha, have too often been regarded as "simple."

Several years after starting Tihati, they took a step that helped them be taken more seriously: They quit performing and turned their full attention to running the business. "If we were still on stage, we'd still have just one show," says Jack, "and I'd still be coming up and saying, 'Aloha.' "

In 1986, the Thompsons, nominated by the Bank of Hawaii, were named the state's Small Business Persons of the Year by the U.S. Small Business Administration, and Jack was given a title equivalent to that of duke by Western Samoa.

PHOTO: ©KEN SAKAMOTO—BLACK STAR

Hawaii's Polynesian heritage *springs to life in shows put together by Jack and Cha Thompson of Honolulu's Tihati Productions.*

The Thompsons, who have five children, have been invited to take Polynesian culture to the Far East. They have signed a 10-year contract to produce Polynesian shows in a 3,500-seat supper club in Bangkok that is scheduled to open next January. At first Cha wondered why the owner didn't want a Thai show, but she found that the Thai people "are crazy about hula."

The club, to be called King Kong, will have a jungle theme, she says, and will feature, as part of the decor, two huge mechanical gorillas.

—Sharon Nelton

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COVER STORY

Social Security: Hard Choices Ahead

By Robert T. Gray and Joan C. Szabo

The Social Security system "places an undue and inequitable escalating financial burden on businesses and their employees," the White House Conference on Small Business declared in 1986.

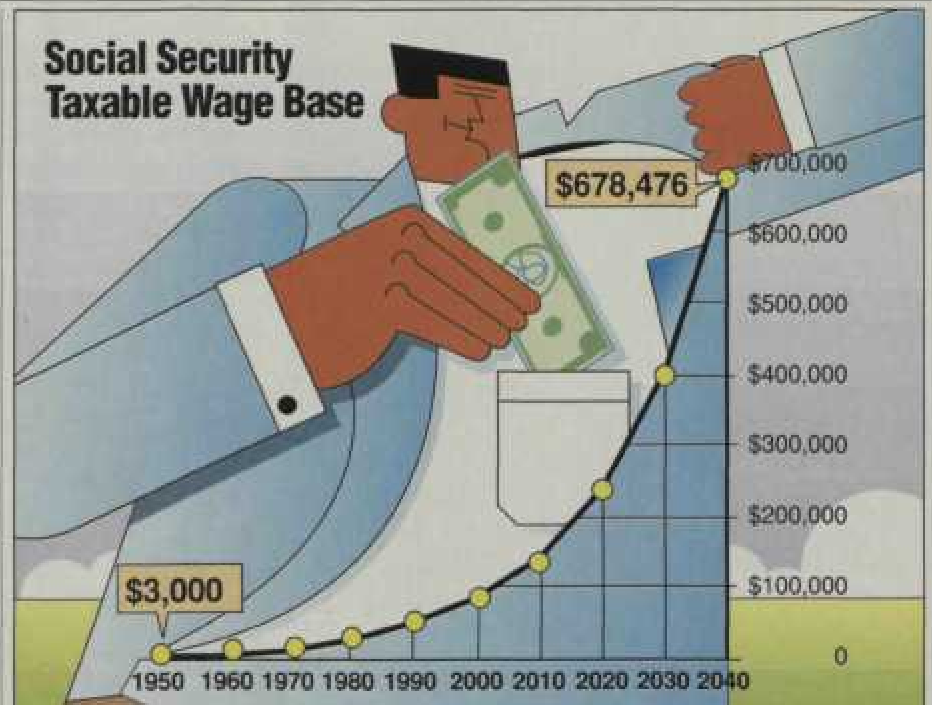
Delegates appealed to Congress to cancel scheduled payroll-tax increases that would add substantially to that burden. In the previous decade, the wage base had gone up 174 percent, and the tax rate had risen 22 percent.

The entrepreneurs' appeal was unheeded. The wage base has since increased another 22 percent, and the rate has gone up 7 percent. The tax rate for the self-employed has nearly doubled since 1976.

And small business is still appealing for relief. "We urge the Congress and the administration to reduce the payroll tax," the U.S. Chamber of Commerce says in a resolution adopted unanimously by its board in February. That panel acted on a report in which the organization's Small Business Council noted: "For most small businesses, payroll taxes are a far greater burden than income taxes."

While today's small-business plea for relief is the same that was sounded at the 1986 conference, there is a sharp difference in the environment in which the issue is being raised today.

Throughout the 55-year history of Social Security, official concern has generally centered on the payments side. Politicians competed for recognition as principal protectors and enhancers of



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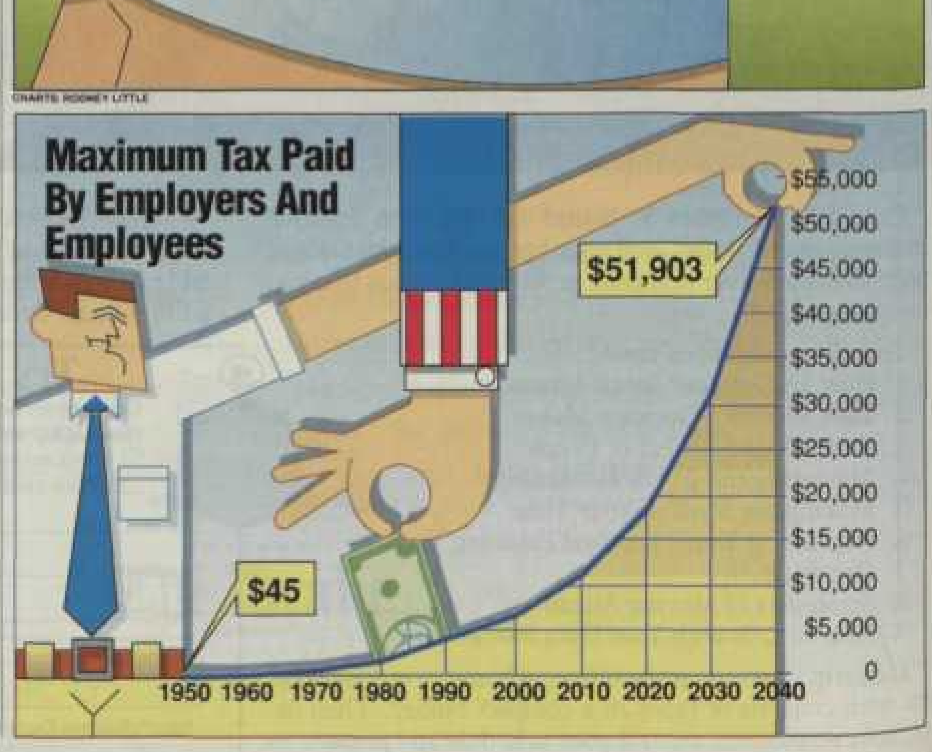


The wage-base *projections utilize the Social Security trustees' midrange estimate of a 5.3-percent average annual increase in all covered wages. Applying the current tax rate of 7.65 percent yields the maximum tax levels. Because tax-rate increases are considered inevitable under existing Social Security policies, the taxes shown are undoubtedly conservative. The amounts shown have not been adjusted for inflation.*

Skyrocketing taxes, growing demands for benefits in the coming years, and a vanishing surplus to pay for them: Welcome to the Great Social Security Debate of 1990.

the benefits pouring out to elderly recipients whose political clout was expanding in line with the fast growth in their ranks.

But the Great Social Security Debate of 1990 was touched off by a proposal to ease the payroll taxes that finance the benefits, and the discussion has expanded to the fundamental issue of determining the most effective and equitable ways for the retirement system to meet the long-term demands it faces.

The size of those obligations is awesome. Some 40 million individuals, including retired workers and their survivors as well as the disabled, are receiving benefits today. That total goes up relatively gradually until the baby-boom generation starts arriving at the payout window. In 2010, there will be more than 50 million beneficiaries; in 2020, some 65 million; in 2030, 75 million; in 2050, more than 80 million.

Current expenditures of $256 billion to retirees, their survivors, and the disabled will more than double over the next 10 years, will double again by 2010, and again by 2020. For 2055, the forecasters are using such mind-boggling numbers as $20 trillion or more in outlays.

As the baby-boom beneficiaries and the money needed to pay their benefits move into those stratospheric ranges, another demographic inevitability will occur. The decline in the birth rate since 1964 means there will be fewer workers to support more beneficiaries down the road, and those beneficiaries will be living longer. (See the chart on Page 21.)

There were 42 workers per beneficiary in 1945, but the ratio had fallen to 4-to-1 by 1965, and it is 3-to-1 today; by 2035, there will be fewer than 2 workers for each beneficiary. Some observers see in those numbers the seeds of a future intergenerational battle, with the increasingly smaller pool of younger workers rebelling against the costs they will have to bear to maintain the retirement system.

Whatever the outcome of today's proposals for changes in the system, they are at least forcing an unprecedented scrutiny of a massive government program that eventually affects every American.

In addition to pressing its long-standing arguments for reductions in payroll taxes, business is utilizing the current prominence of the Social Security issue to make these related points:

- The retirement system can meet its commitments to present and future retirees only if the underlying economy is strong enough to generate the revenues needed. The biggest threats to the long-range stability of the system are tax increases, uncontrolled spending, and such other bars to economic growth as excessively high capital-gains tax rates.
- Eventual privatization of the retirement system, with individuals maintaining their own pension accounts, should be among the options considered in any review of basic Social Security policy, particularly in view of the scope of demands that will hit early in the next century. (See the article on Page 25.)

The federal program at the center of those and other policy discussions has occupied a special place in the national psyche since its passage in the depths of the Depression. The Employee Benefits Research Institute, a nonpartisan organization based in Washington, D.C., says: "The Social Security Act of 1935 has proved to be one of the most significant pieces of legislation—if not the most significant piece—ever passed by the Congress of the United States."

Certainly, no government program has ever commanded more public support, even admiration, than this plan to provide benefits to retired workers, provide for their survivors, assure that the disabled have an income, and, more recently, meet substantial if not all medical costs for the elderly.

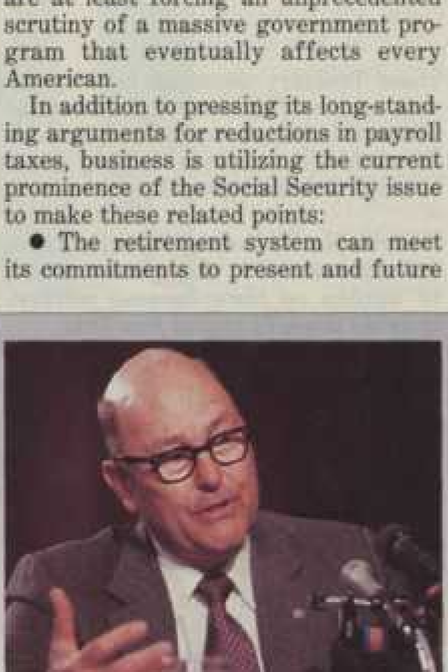


PHOTO: T. MICHAEL KEZA

Reducing Social Security taxes today . . . will not materially alter the situation faced by retirees in the next century.

Small-business owner Frank Mason

At the same time, there are signs of concern beyond those of entrepreneurs who feel that, by imposing oppressive costs, the system could undermine the economic base needed to sustain it. Polls demonstrate repeatedly that growing numbers of young workers do not believe they will ever see promised benefits. More and more individuals are discovering that the taxes they thought were going into trust funds for their future needs are in fact fueling spending for interest on a $3-trillion debt, farm-price supports, jet fighters, computers for federal offices, and other general government purposes.

Why has a program that enjoyed virtually unanimous public acclaim for most of its long existence come under today's scrutiny? Two factors are in-

volved. One is the paradox of Social Security—the extent to which there has been broad support for it but little understanding of how it works. The other factor is the extent to which the sharply rising taxes are raising the basic question: Where is all that money going?

The first consideration is the widespread failure of many citizens to realize the full dimensions of what they consider a personalized retirement program. Those dimensions can be surprising. Thomas P. Brock of the certified public accountancy firm of Brock, Buchholz & Stow, PC, which is based in Boulder, Colo., offers this description:

"In the real world, Social Security is four different programs—a pay-as-you-go retirement program; a welfare program that provides proportionately higher benefits to those who made low payments into the system and proportionately lower benefits to those who made higher payments; a program that provides medical benefits, benefits to disabled persons, and benefits to families of employees who have retired, become disabled, or died; and, to the extent of its surplus, a general tax system that stands shoulder to shoulder with the income-tax system in funding current government operations."

The lack of understanding about what Social Security is and isn't goes back to the circumstances that surrounded the creation of the system. In its primer *The ABCs of Social Security*, the Institute for Research on the Economics of Taxation says: "There were conflicting purposes to Social Security from the beginning.

"On the one hand, the early planners, and particularly President Roosevelt, wanted to establish a link between benefits received and taxes paid for two reasons. First, it would put the government under some obligation to pay benefits. Second, it was thought that Americans, particularly the workers who would have to pay the payroll taxes, would be more likely to support a program that linked benefits to work effort. Social Security benefits were not to be 'handouts' but something a person 'earned.'"

The primer also notes that another aspect of the operation of Social Security, an openhanded attitude toward benefits, stems from the earliest days:

"Before the first check went out, the 1939 Social Security Act liberalized benefits. Payment of the first benefits was moved up from 1942 to 1940. Furthermore, the 1939 act added new categories of benefits, specifically for dependents of aged workers and survivors of deceased workers. The 1939 act also postponed the scheduled 1-percent payroll-tax increase from 1940 to 1950.

"These changes effectively eliminated the possibility of accumulating a significant trust fund. Thus, the principle of Social Security financing was firmly established as 'pay as you go.' In other words, benefit payments to retired workers would be paid by the current working population."

The idea that there was a trust fund bearing individual accounts had been implanted in the public mind, however, and it would be a long time before many taxpayers and beneficiaries thought otherwise. While the current debate over financing is only a few months old, the events that began to stimulate today's public rethinking of the trust-fund idea can be traced to 1972, when Congress took a far-reaching series of election-year actions. It approved a 20-percent increase in retirement benefits, improved several other types of benefits, put payment

The Myths Of Social Security

Myths about Social Security sometimes become the basis for policy decisions by officials unwilling to appear that they do not fully support public perceptions of the retirement system. Here are some of the more pervasive myths:

Myth No. 1: Social Security payroll taxes are deposited in individual accounts in trust funds, where they earn interest and then are used for paying benefits to the taxpayers upon retirement.

The belief that workers' payroll taxes are put in a trust fund to pay for their own retirement is perhaps the largest myth of all. Social Security taxes flow out immediately as benefits to today's retirees. Any surpluses are turned over to the Treasury Department, which uses them for general government spending. This availability of payroll taxes enables the government to show a smaller deficit in the operating budget than it would otherwise.

Myth No. 2: Adequate provision has been made for the enormous demands that will be placed on the retirement system when the baby-boom generation begins retiring around 2010.

Because of tax increases and other steps taken by Congress in emergency action in 1983, the Social Security system is officially building vast surpluses to be ready for the baby boomers. This surplus actually consists of special bonds that the Treasury Department has exchanged for the cash collected in taxes. The bonds are not marketable. They are in effect IOUs—promises by the government that it will replace the cash when it is needed. The replacement money can come only from taxes, borrowing, or reductions in benefits.

Analysts point out that if the government were not running a deficit in its day-to-day operating budget, the Social Security surpluses could be used to purchase Treasury securities held by private lenders. This money then would be invested in plants, equipment, and other productive purposes, helping to encourage economic growth.

Myth No. 3: Social Security taxes are regressive, i.e., they place a heavier burden on lower-income workers than on those in higher brackets.

This argument is based on two factors: The tax rate of 7.65 percent applies to all earnings up to $51,300 with no recognition of ability to pay, and the wage cutoff means that those below that level pay on 100 percent of income, while those above it pay on only a part. This argument fails to recognize that the benefits system is weighted toward lower-income workers. Benefits are computed under a formula that sets various wage-replacement ratios for various income levels. The replacement percentage is higher for those who have had lower wages than for those with higher wages. Thus, lower-income workers receive a far greater return on their contributions.

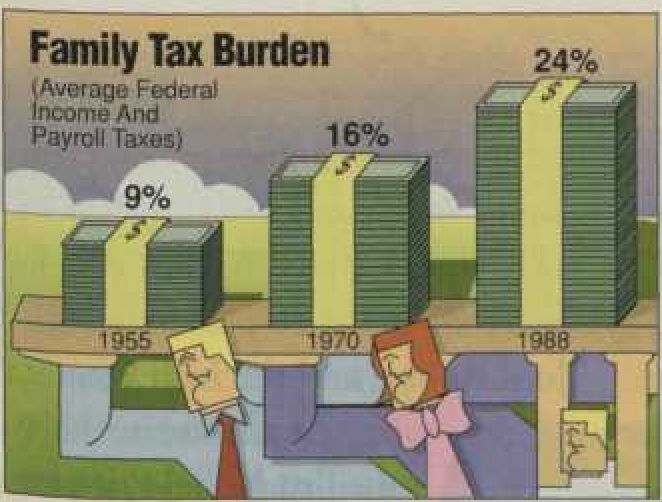
Myth No. 4: Reducing payroll taxes would endanger the future solvency of the Social Security system.

As noted, the recent and stiff increases in payroll taxes are generating surpluses that are being spent the same way income, corporate, and other taxes are being spent. In addition, the availability of the Social Security money enables the government to show a smaller operating deficit than it would if it had to rely on normal revenue sources. Spending decisions are made on the basis of deficit levels kept artificially low by the Social Security revenues. Lower payroll taxes would not affect the long-term solvency of the system and would force a more realistic approach to government spending.

—Joan C. Szabo

boosts on an automatic escalator beginning in 1975, and raised taxes. The 20-percent increase in retirement benefits brought to 45 percent the total boosts for 1970-72.

The financial arrangements to support the 1972 changes assumed a high level of economic activity and low inflation at the very time the country was entering the opposite situation—declining growth coupled with inflation that eventually soared into double digits.



The 1972 law was based on economic assumptions that said, for example, that over the five years ending in 1976, living costs would increase a total of 14.5 percent, real wages would go up 11.7 percent, and unemployment would average 4.2 percent. The actual figures were 36 percent, 1.2 percent, and 6.5 percent, respectively.

And the problem was compounded by a serious error that Congress made in the 1972 law. The impact of inflation was included at two separate places in the formula for calculating initial benefits, and this sent costs soaring far beyond the already sizable expenses involved in liberalizing benefits.

The financial foundation of the Social Security system deteriorated rapidly. By 1975, tax income was not sufficient to cover spending.

The stage was set for Big Fix No. 1. In 1977, Congress enacted the largest peacetime tax increase in the nation's history—$228 billion over 10 years—to deal with the Social Security financing crisis. And although it dealt with the problem caused by the 1972 mistake in the benefits formula, the revised formula did not take effect until 1982. The mistake's adverse impact on the system's fiscal balance was thus continued five more years at a time when that balance was increasingly precarious.

But there was a sense of achievement on Capitol Hill. Says the Employee Benefits Research Institute: "Congress believed at the time that enactment of the 1977 amendments had assured financial solvency for the Social Security program . . . until at least 2020. Although the long-term problem loomed on the horizon, Congress believed there was still time to deal with it. It soon became apparent that the short-term benefits consistently ran ahead of the levels projected in 1977, and revenues ran behind."

While Congress could enact a law calling for massive infusions of money, it still could not mandate the economic conditions needed to generate those sums, nor could it even anticipate with any degree of accuracy what those conditions would be.

The congressional crystal ball saw a 28-percent cumulative increase in the cost of living in the five years ending in 1982. It said real wages would go up 13 percent, and unemployment would run at an annual average of 5.9 percent over the period. The reality: Inflation rose more than 50 percent, real wages fell 7 percent, and the average unemployment was 7 percent.

Those developments occurred immediately after adoption of the automatic benefits escalator tied to the consumer price index. Benefits therefore skyrocketed, while the worker income needed to finance them fell. By the early 1980s, the system was going broke.

The stage was set for Big Fix No. 2, which was to create the conditions that precipitated today's debate.

With bipartisan support from a politically divided Congress, President Reagan established the National Commission on Social Security Reform. In announcing his action, Reagan summed up the recent history of "fixing" the system:

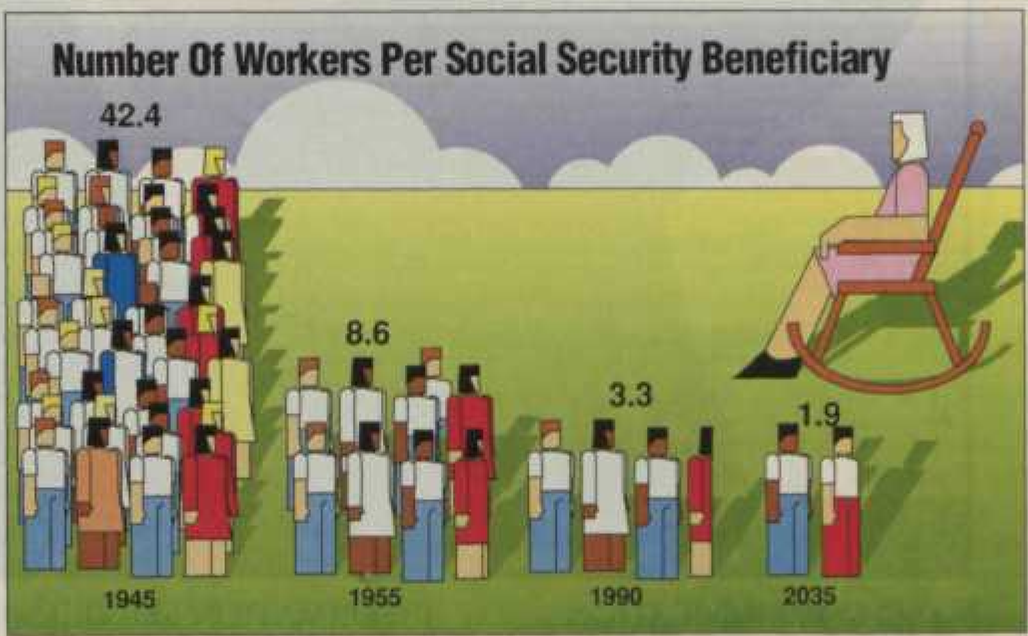
"Time and again, we've been reassured the system would be financially sound for decades to come, only to find that recalculations of receipts and benefits forecast a new crisis. Current and future retirees now question the system's ability to provide them the benefits they've been led to expect."

Nonetheless, President Reagan said, "Social Security can and will be saved."

One of the commission's discoveries: Social Security revenues would fall between $150 billion and $200 billion short of needs from 1983 to 1989 alone, and the long-term deficit was $1.6 trillion.

In 1983, Congress essentially accepted the commission's recommendations. Among them were the inevitable round of tax increases, taxation of some Social Security benefits, and a retirement-age increase that would lift the full-benefits eligibility age from 65 to 67 by 2027. The tax on the self-employed was raised 33 percent to bring it to the combined total of the employer-employee payment.

The corrective action, it was said, not only would deal with the immediate crisis but also would assure sufficient funds for the sharp increase in outlays when the baby-boom generation of



He published 56 books, saved his country. Not ba

The ability to do more than one thing well is often the difference between competence and excellence.

In the case of Winston Churchill, it was the difference between excellence and brilliance.

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1946-64 entered its retirement years beginning around 2010.

While the 1972 and 1977 plans for bringing vast additional sums into the system had been crushed by economic problems, the 1983 changes succeeded beyond all expectations. The nation was well on its way into the longest peacetime recovery in its history. Employment and wages—the mother lode of Social Security income—exploded throughout the rest of the 1980s.

The Social Security accounts, exhausted early in the decade, showed vast and growing surpluses at its end.

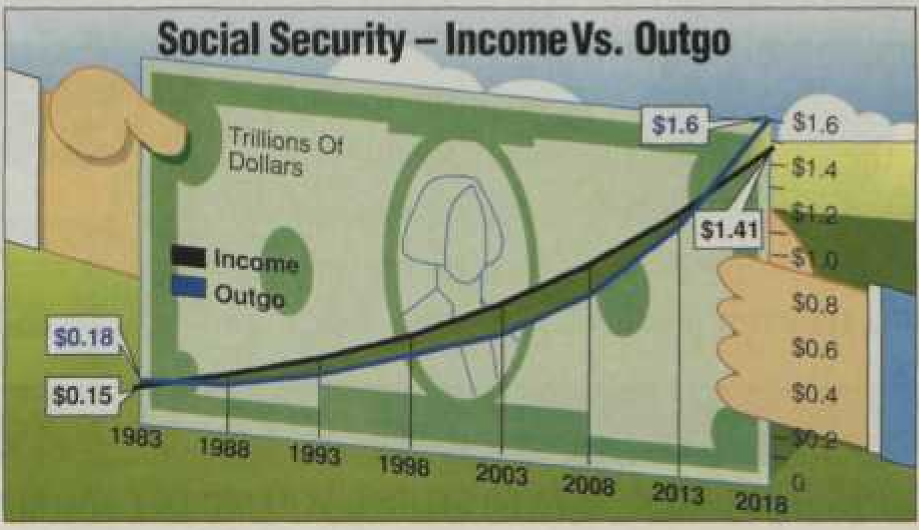

PHOTO: ©TERRY ASHE

Decision makers *on Social Security include Sens. Robert Dole, R-Kan., Daniel P. Moynihan, D-N.Y., and Lloyd Bentsen, D-Texas.*

Happy ending? Not at all. Social Security had finally escaped from the recession villain but promptly fell into the clutches of the deficit villain.

It came about this way: The unprecedented growth in Social Security revenues coincided with unprecedented annual deficits in the federal budget. These spurred Congress to pass the Gramm-Rudman-Hollings law, requiring a balanced budget by 1993. (Why Congress had to enact legislation directing itself to enact legislation it could have enacted without the first enactment is a matter for another day.)

Under existing budget policy, Social Security and other so-called trust funds of the government are part of a unified budget in which their revenues and expenditures are counted in computing the federal bottom line. When Social Security runs an enormous surplus, as it continues to do, and the rest of the government runs an enormous deficit, as it continues to do, the retirement-fund surplus helps to camouflage the true extent of the red ink flowing in the general operations of government.



The Congressional Budget Office says the deficit this fiscal year will be $141 billion if the Social Security surplus is used as an offset, but $204 billion without it. That surplus is expected to grow from this year's $63 billion to $12 trillion by 2030. The availability of such sums to fuel government spending is not likely to encourage fiscal restraint, the experts say.

And applying the funds to the bottom line is not just a ledger arrangement. As pointed out earlier, the federal government actually spends the excess Social Security income on general government. In return for the funds, the Social Security system receives special, nonmarketable government bonds to be redeemed when the money is needed to meet the baby-boom crunch in the next century.

Where will the government get the money to redeem those bonds 20, 30, or more years from now? One answer comes from Frank Mason, chairman of the Mason Corp., of Birmingham, Ala., in testimony at a U.S. Senate Finance Committee hearing on Social Security legislation. Appearing on behalf of the U.S. Chamber of Commerce in support of a payroll-tax reduction, Mason said:

"The day will come when millions of baby boomers need their Social Security checks. Beyond the taxes collected from their working children, what will the trust fund have to offer? Figuratively speaking, a stack of Treasury bonds that amounts to a stack of IOUs. The cash for which the bonds were issued is long since spent, yet the bonds must be redeemed.

"One might draw the analogy of a father saving for his child's college education. Each Monday, he puts $50 in a cookie jar, and each Wednesday he takes the cash out to spend on something else, depositing an IOU in its place. When the child reaches college age, the father still needs real money.

"In the case of Social Security, Congress will . . . have four choices: raise taxes, reduce benefits, cut federal spending, or borrow. Interestingly, these same four choices will present themselves, at about the same time, if there is no accumulated 'surplus.' Whether it is a question of paying benefits directly or redeeming bonds in order to pay benefits, cash must be raised before checks can be cut. Tomorrow's retirees, tomorrow's workers, and indeed tomorrow's Congress will confront essentially the same situation either way. Consequently, if we look strictly at the Social Security system, the interim device of Treasury bonds could be skipped altogether."

The portion of Social Security revenues that are converted into IOUs "protects no one," Mason told the committee. "The business owner quite reasonably could feel that his dollars would more properly be invested in his operation and his employees than in paying the government's bills.

"Reducing Social Security taxes today will be a benefit to today's employers and their employees alike," Mason said. "It will not materially alter the situation faced by retirees in the next century." He summed up the Chamber position: "Hard choices need to be made.

Continued on Page 26

Privatizing Social Security

By Joan C. Szabo

As the nation's lawmakers continue to debate the merits of a Social Security payroll-tax rollback, proposals to transform the 50-year-old retirement system to a fully or partially private program are gaining considerable interest.

One of the privatization proposals gaining strong attention comes from Rep. John E. Porter, R-Ill., a long-time advocate of Social Security reform. He wants to convert Social Security gradually to a vested, funded, worker-owned retirement system. Porter, a member of the House Appropriations Committee and the House Select Committee on Aging, says his aim is to preserve the Social Security program.

To do that, he says, it is necessary to end the present situation in which Congress uses surplus Social Security revenues for general government spending, thereby masking the true size of the federal deficit. "If we continue to do this for the next 30 to 40 years," he says, "reserves that are needed to pay the baby boomers won't be there."

Under his proposal, each employee would have an Individual Social Security Retirement Account, or ISSRA.

Workers and employers would continue to pay Social Security taxes, and current beneficiaries would continue to receive the same level of benefits they have been promised. But any surplus funds would be returned to workers for deposit in their tax-free retirement accounts. The rebate to individual workers would be determined by the level of surplus taxes paid by each worker.

Each worker would control the investment of those funds within guidelines designed to channel the money to secure holdings.

The amounts refunded and the earnings on the accounts would not be subject to income taxes, and the accounts would become part of the individual's estate at death.

Rep. Porter estimates that if his plan were in operation, approximately $60 billion would be refunded into 130 million accounts this year, an average of $430 per worker. The sums in the future would be substantially larger. The worker accounts would yield a better rate of return than those funds placed by the Social Security Administration in Treasury debt, thereby easing the long-term unfunded liabilities of the government's retirement system.

While individuals remain in the work force, the ISSRAs would be held by qualified, bonded Social Security trustees, such as banks, insurance companies, and brokers. The funds would be invested according to safe fiduciary standards in government obligations, time deposits, and similar investments. Early withdrawals would not be allowed for any reason.

At retirement, the worker would buy a lifetime annuity that would provide

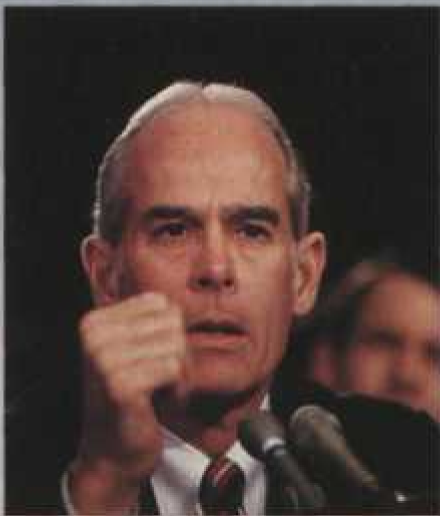


PHOTO: ©TERRY ASHE

Rep. John E. Porter proposes a Social Security plan to ensure funds for baby boomers' retirement.

retirement income. The Social Security system would make up the difference between that income and the benefits to which the worker would have been entitled in the absence of the annuity. Because workers would not lose out directly if they did not have the annuity, participation in the plan would be mandatory. Workers would be better off as the system shifted more and more to the private side, the Porter plan assumes, because they would end up with an assured retirement income from the annuities whereas the long-term outlook for Social Security offers no such guarantees.

Porter says his plan would ensure that money would be saved for the baby boomers' retirement needs.

What about the impact of inflation on benefits? Under Porter's plan, the annuity that retirees would be required to purchase would have to be indexed to inflation. "There must be protection for senior citizens against inflation," Porter says.

Porter believes his plan offers a number of important advantages. First, he says, Congress would be denied access to Social Security trust funds it is now spending on general government. In addition, he says, funds would be saved and invested to pay for an individual's retirement and would be available when needed.

A further advantage of the private accounts, Porter says, is the extent to which they would boost the national savings rate and make the U.S. less dependent on foreign capital.

The capital pool represented by the private accounts would help drive down interest rates and encourage economic expansion, the congressman adds.

Porter says his plan would be achieved gradually over the next 50 years, and during that time a greater and greater percentage of each worker's Social Security taxes would be diverted to an ISSRA. He says that a 60-year-old worker today would receive the bulk of his retirement benefits from the trust fund and only a small portion from his ISSRA. But a child born today would get all of his government-mandated benefits from an ISSRA. The transition would carefully protect the benefits of those who have already paid into Social Security, Porter says.

Critics of privatization charge that it would eliminate the existing policy of giving lower-income workers a higher rate of return than other beneficiaries on their Social Security taxes. But Porter says his plan would maintain this important feature as well as some of the others now offered under the current system. He explains: "I envision a system which is partly private and partly public. What would remain would be the minimum benefit for low-income workers, the entire disability program, and some elements of survivors' benefits."

Looking ahead to congressional consideration of his proposal, Porter says: "I am optimistic that if the American people understand this proposal, a base of support will grow that ultimately will lead lawmakers and the administration to take steps in this direction."

Americans must realize that unless such a change is made, Porter says, there will come a time when "Social Security is not going to be there."

Continued from Page 24

and they should be addressed now. The Chamber believes that the revenues necessary to offset a tax cut in order to continue deficit-reduction progress should be in the form of reduced federal expenditures. The Chamber vigorously opposes any proposals to raise other taxes in order to make up for a Social Security tax reduction."

In other testimony to the same committee, the benefits of moving to a pay-as-you-go revenue plan were described by Robert J. Meyers, who was executive director of the 1981-82 reform commission and is one of the country's leading experts on Social Security. He told the Senate committee that moving to pay-as-you-go, which would mean there would be no surpluses, would enable tax rates to be set at lower rates than now scheduled over the next 25 years, at the scheduled rates for the next five, and at somewhat higher rates for the 25 years after that.

"I believe that pay-as-you-go financing would increase public confidence in the ... program," he said. "No longer would there be the confusion and the fear of 'thievery' and 'embezzlement' in connection with the use of trust-fund monies to balance the budget. ... The system would then be financed on a clear, visible, and understandable basis and would be actuarially sound."

Business is waging its own campaign to demonstrate the strong impact of payroll taxes on grass-roots enterprises.

On the other hand, Meyers told the Finance Committee, a vast surplus carries a double risk. For one thing, he said, "the ready availability of large amounts of money that could easily be borrowed by the general fund of the Treasury would encourage excessive governmental spending." The other risk: "The presence of a very large fund balance could create politically irresistible demands for greatly liberalized [Social Security] benefits on the grounds that 'all that money is there.' "

Meyers specifically endorsed the Social Security tax rollback proposed by Sen. Daniel P. Moynihan, D-N.Y., who touched off the current scrutiny of Social Security policy. Moynihan wants to drop the tax rate, which became 7.65 percent Jan. 1, to the 7.15-percent level previously in effect. He also would cut the rate to 6.55 percent next Jan. 1, for an overall tax reduction of $62 billion over the two years. He does not support any reductions in the wage base.

While supporting the goal of the tax reductions, business has adopted a highly cautious approach to the Moynihan plan, principally out of concern that it does not sufficiently recognize the other key aspects of a payroll-tax cut—guarantees that other taxes would not be increased to make up for the lost revenues, and agreement to study privatization alternatives that would meet the nation's critical need for more savings and investment.

Business is waging its own campaign to demonstrate the strong impact of payroll taxes on grass-roots enterprises. In his testimony for the U.S. Chamber, Frank Mason said that the Social Security tax burden "falls heavily on small business for a number of reasons. Small businesses generally are more labor-intensive than larger firms, and their average wages are lower. ... Unlike income taxes, payroll taxes have no relation to a company's profitability. They must be paid from Day 1, whether a business is flourishing or foundering. Consequently, high payroll taxes con-

A Chronology Of Social Security

These were the key developments in the evolution of the Social Security system now at the center of an expanding public-policy debate over its financing and future:

1935—President Franklin D. Roosevelt signs a landmark law to provide retirement income to workers in industry and commerce, who constitute just over half the work force. Long-range projections put 1980 outlays at $1.3 billion.

1937—A payroll tax of 1 percent is set on a maximum $3,000 of income, and the employer and employee each pay $30.

1939—Survivors and dependents of covered workers are made eligible for benefits.

1940—Payment of benefits begins two years earlier than originally scheduled. Social Security check No. 00-000-001, in the amount of $22.45, goes to Ida M. Fuller of Ludlow, Vt.

1951—Self-employed individuals are brought under the system, with the exception of farmers and professional people. Coverage is eventually extended to both those categories.

1956—A disability-insurance plan is established to provide income to those who become permanently and totally disabled. Women can qualify for retirement benefits at age 62 with lower payments than they would receive at 65.

1961—The minimum retirement age for men is lowered to 62, with a corresponding reduction in benefits.

1965—The Medicare program of health insurance for the elderly is added to the Social Security System.

1967—The federal government adopts a fiscal-reform plan providing for a unified budget in which trust funds can be credited against operating deficits.

1975—Benefits, which Congress had heretofore raised periodically, are tied to an automatic cost-of-living escalator to begin in 1975.

1980—Outlays total $149 billion, compared with the 1935 estimate of $1.3 billion.

1981—President Reagan establishes the National Commission on Social Security Reform in the face of the threatened bankruptcy of the system.

1983—President Reagan and Congress accept commission proposals to restore the Social Security system to long-term solvency. While the rescue effort puts major reliance on tax increases, it also subjects some benefits to income taxes for the first time and provides for an eventual increase in the retirement age.

1986—The White House Conference on Small Business calls for freezing Social Security taxes at then-current levels.

1989—A proposal by Sen. Daniel P. Moynihan, D-N.Y., to put Social Security on a pay-as-you-go basis touches off a national debate over the system.

strain not only employment but also overall financial capacity, particularly for small firms. For labor-intensive businesses, high tax rates compound the difficulties of effectively competing at home and in international markets."

CPA Brock says that the tax link to payrolls rather than profitability is the aspect that most concerns small businesses. "Usually their largest operating cost is payroll. This is evident when one considers what kinds of businesses typically are small businesses. Included are most retailers, almost all professional and service businesses, most building contractors and subcontractors, and smaller, less capital-intensive manufacturers. ... To the extent that the Social Security tax is used to finance normal government operations, it is the most inequitable tax of all. It taxes the need to hire, not profits. It hits hardest at small businesses, which have the least ability to pay."

In addition, Brock says, "the significance of the Social Security tax as a revenue generator should not be underestimated. In 1990, Social Security taxes are projected to generate $389 billion, four-fifths as much as the individual income tax. Since the individual income tax applies not only to earned income like salaried wages but also to passive income like interest, dividends, and rents, it is evident that Social Security taxes overall are a heavier burden on earned income than are income taxes."

The various small-business perspectives on Social Security financing are part of an overall policy debate that can often seem overwhelming as it deals with nonexistent surpluses, projections of millions of people receiving trillions of dollars in benefits, and economic forecasts stretching far into the 21st century.

But policy makers can draw a basic lesson from events of the recent past.

The Social Security system nearly went under twice during the 1970s because the economic base that had been expected to generate revenues was undermined by government tax, spending, regulatory, and other policies that smothered growth.

The reversal of those policies triggered the economic boom of the 1980s, which produced growth in Social Security revenues far beyond even the most optimistic estimates.

Small business believes that those experiences offer a quite simple lesson to officials charged with keeping Social Security sound. It's about geese and golden eggs. NB

To order reprints of this article, see Page 68.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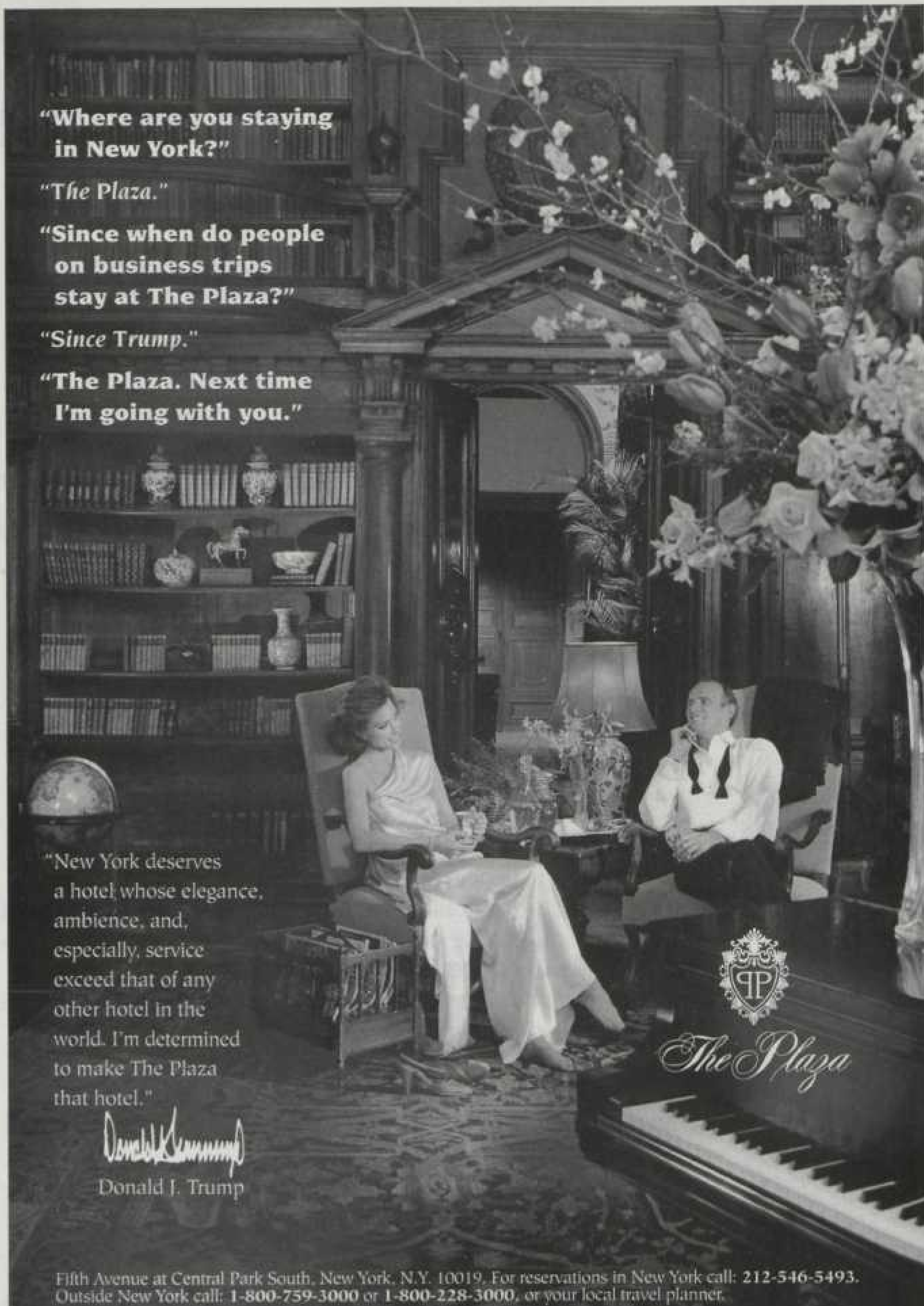
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LEADERSHIP

The Rise Of Re/Max

Their full-commission plan for agents is propelling Dave and Gail Liniger's Re/Max firm toward the top in real-estate sales nationwide.

By Roger Thompson

PHOTO: T. MICHAEL KEZA

The hot-air balloon *was adopted by Dave and Gail Liniger as a company logo for Re/Max a decade ago.*

Dave Liniger is on the move—as usual. He and his wife, Gail, are cruising down Interstate 225 in their Jeep 4x4 on their way to Denver airport—a frequent destination for a couple that spends more than 200 days a year on the road.

They're off this time to Las Vegas for the opening of a new Re/Max franchise. Office No. seventeen-hundred-and-something. It's hard for the chief executive officer and the president, respectively, of Re/Max International Inc., the fast-growing residential-real-estate franchising company, to keep track these days. On average, about four new offices open every week somewhere in the U.S. or Canada, and they'll soon start popping up in Australia.

Liniger is raring to tell his "ultimate, all-time-great hunting story" about the leopard that almost ate him, but first he has to attend to a bit of business. He uncradles the car phone and returns a stock broker's cold call.

The broker is related to a Re/Max agent and figured Dave and Gail could use a little portfolio management. Liniger politely declines, explaining that he and Gail, who own 97 percent of Re/Max, already employ financial advisers who have their affairs well in hand. "I've probably had 10 to 12 stock brokers call in the last week," Liniger says after the call. He declines to discuss the couple's considerable net worth: "We're a very privately held company."

Next, Liniger dials up his horse broker for an update on the latest potential acquisition. Dave and Gail, both 44, already own nine Arabian show horses, and they intend to double that number soon. The Linigers are building a second home near Santa Barbara, Calif., that will serve as a horse ranch and escape from their fast-paced lives.

Their ultimate escape—for which Dave almost paid the ultimate price—is big-game hunting in Africa. With the car phone back in its cradle, Liniger swings into his leopard story.

On safari in the Kalahari desert in southeastern Africa, Liniger wounded a leopard, provoking the beast to make a rare, lightning-quick, kill-or-be-killed charge for its pursuers. Liniger stood defenseless on the platform of his hunting truck, having had no time to reload his rifle. In seconds, the leopard was clawing its way up the side. Twice Liniger repelled the attacker with the butt of his gun. As he held the leopard at bay a third time, a professional hunter who was along for the ride felled the beast with a single point-blank rifle shot. As the leopard tumbled backward, Liniger fell out of the truck and landed on top of the fatally wounded animal.

Through it all, says Liniger, "there was no sense in panicking. There was no place to go."

That wasn't the first time that steady

nerves in the face of enormous odds paid off for Dave Liniger.

He and Gail built Re/Max into a multibillion-dollar business because they simply refused to collapse under pressure. When bad luck, inexperience, and predatory competitors all but killed their fledgling company in the early 1970s, Dave and Gail never lost their resolve.

Today, in the field of residential real-estate franchises, Re/Max is No. 2 in the U.S., behind Century 21, and is No. 1 in Canada. By the end of 1989, Re/Max had 26,575 sales agents—one-third in Canada; they earned $1.96 billion in commissions, and they increased their sales volume by 23 percent over the previous year, to 589,834 transactions. Century 21's transactions last year declined slightly to 705,000 from 720,000 in 1988, according to a spokesman for the company.

CHART: WENDY KELLY

Re/Max offers its franchisees a finely honed support system that includes custom-designed office computer software, national advertising that cost $121 million last year, and award banquets. But Re/Max's critical edge is a compensation concept that is simple yet so powerful that it has made the rest of the real-estate industry take notice.

While agents with traditional companies split their commissions on roughly a 50/50 basis with their broker/employers, Re/Max agents keep 100 percent of their commissions and pay monthly office overhead and franchise fees, which average $1,200 to $1,500. That means agents net about 85 percent of their commissions, says Liniger.

Because part-timers and low performers can't afford the monthly payments, Re/Max is a magnet for experienced agents who are confident of their abilities and eager to boost their net incomes. The average Re/Max agent in the U.S. earned $69,050 in commissions last year, 3.5 times the industry average of $19,000. One in four Re/Max agents grossed over $100,000.

Thus, in an industry where productivity—measured in numbers of transactions—is customarily low, Liniger has devised a compensation system that packs Re/Max with high-performance agents. And the home office in Denver lavishes support services on them.

The power of Liniger's compensation system "caught the traditional brokers sitting on their hands," says Steve Murray of Orlando, Fla., co-editor of *Real Trends*, a real-estate newsletter. "Up until about 1987, they tried to ignore him, and they got burned. They're not ignoring him any more."

Across the U.S., traditional brokers now offer their best agents a bigger cut of commissions to keep them from defecting to Re/Max. "There is no question that Re/Max has shaken up things," says Murray. But paying agents more means brokers earn less. For that reason, Murray adds, "the traditional brokers hate the guy [Liniger]."

Dave Liniger launched Re/Max in 1973 in Denver with Gail as his first employee. (They married in June 1984.) Despite the company's seemingly unstoppable growth in recent years, Re/Max was no overnight success. In fact, much about Re/Max is misunderstood. The chief myth is that Dave Liniger invented the concept of the 100-percent commission. He did not, as he readily acknowledges. He learned it while working briefly for a small Phoenix real-estate firm.

Nor did he and Gail single-mindedly set out to build the franchising system that has produced the company's explosive growth since the mid-1980s. (See the chart above.) They arrived at the current system through painstaking trial and error and with the help of a cadre of imaginative, fiercely loyal employees who risked everything to put the struggling young company on its feet. There was a time when Liniger was so broke that he had to borrow from employees to pay his air fare and hotel bills.

Liniger's real contribution lay in his charismatic leadership style and his vision of a company that would harness the entrepreneurial drive of diverse individuals by offering them maximum financial rewards for hard work. Re/Max stands for real-estate maximums.

Gail Liniger's managerial skills complemented her husband's vision and pulled Re/Max through some early brushes with financial ruin. When no one else came forward with cash, she tapped her life savings to keep the company afloat.

Dave Liniger grew up in Marion, Ind., determined at an early age to make it big in the real-estate business. By the time he was 24, Liniger, a college dropout who had joined the Air Force, owned 20 single-family homes. He parlayed his serviceman's salary into down payments on homes he fixed up and resold at a profit.

Still uninterested in sales, Liniger got a real-estate license to act as his own agent when buying or selling his investment properties, thereby eliminating commissions to other agents. Once he had his license, it wasn't long before the sales bug bit.

He became a top sales agent for a Phoenix broker, then joined the 100-percent-commission firm that planted the seed for Re/Max. He worked there only three months, then moved to Denver in October 1971. There, Liniger quickly established himself as a multimillion-dollar salesman, but all the while he chafed under the system that raked off half of his commissions. Finally, he summoned his courage and announced that he was starting his own company based on the concept of the 100-percent commission.

Never one to underestimate his own potential, Liniger proclaimed that he would "revolutionize" the business and build the biggest real-estate firm in the nation. That kind of talk impressed five Denver developers, who pledged an immediate cash infusion of $300,000 to launch Re/Max.

Confident of his financing, Liniger set out to hire a "second-in-command" to compensate for his lack of management experience. A local personnel office supplied him with a stream of applicants, the first 27 of whom Liniger rejected. Gail was No. 28. She had exactly what he sought: a college degree, marketing experience, poise, and self-confidence.

Gail accepted a position as executive secretary, and the two "walked out and opened eight offices in a 30-day period," recalls Liniger. By then, Gail was already vice president. (She has been

president since 1979.) But setting up those first Re/Max offices was the only thing that worked as planned.

When the Arab oil embargo hit in the fall of 1973, the bottom fell out of the Denver real-estate market, and Liniger's backers, facing their own unexpected cash-flow problems, reneged on their deal to finance Re/Max. The Linigers suddenly found themselves with eight real-estate offices and no money.

To make matters worse, Dave Liniger's vision of instant success in attracting top-selling agents to his company failed to develop. "We interviewed 204 agents the first month that we were trying to kick Re/Max off," he says. "But only four agents signed up. And they weren't the four best ones." Liniger had failed to consider that successful agents wouldn't risk joining a shaky upstart.

Re/Max couldn't even get good press for its 100-percent concept. Liniger recalls that the local newspaper gave the firm a condescending one-paragraph mention. "It said something about some sort of 'scheme being dangled before the eyes of the area's top producers.'

"There we were with eight offices, $30,000 to $40,000 a month in negative cash flow, and no agents joining. Bill collectors were calling all the time. It was an absolute nightmare."

At one point, the Internal Revenue Service padlocked all the offices because Liniger didn't have the cash to pay quarterly federal withholding taxes. He marched into the local IRS office and delivered a five-hour sales pitch, persuading the agent in charge that the only way the government would ever get its money was to allow the offices to function. The locks came off the next day.

Dave credits Gail with rescuing Re/Max from certain financial collapse, even as the company had $780,000 in debt at its lowest point. Gail had the patience and negotiating skills to hold creditors at bay while Dave tirelessly recruited agents. Re/Max ended its first year with a 21-person sales staff.

But their problems were far from over. Denver's real-estate brokers began to feel threatened by maverick Re/Max as a trickle of top agents succumbed to the lure of 100-percent commissions. Rumors circulated that Re/Max was engaged in illegal stock offerings, that agents were illegally dealing in government-backed mortgages, and that Liniger was using home buyers' escrow accounts to cover current bills.

PHOTO: T. MICHAEL KEZA

In their Denver office. *Dave and Gail Liniger examine company publications with Re/Max's assistant art director, Marilyn Harper.*

The Federal Bureau of Investigation and the Securities and Exchange Commission conducted simultaneous investigations, and they found nothing amiss. Moreover, the state Real Estate Commission sent auditors by once a week for six months to examine the books on escrow accounts and "never found us even a dollar off," Liniger says. "We were 100-percent clean."

Liniger continues: "For the first two or three years, for a couple of kids who were 27 when we started the company, it was pretty tough work. We were naive. We were young. We had unlimited enthusiasm and all the energy in the world. But the biggest thing that kept us going was that Gail and I adopted the attitude that we weren't going to let them [the real-estate establishment] put us out of business."

The struggle to survive also forced Liniger to alter his plan to take Re/Max national. Initially, he intended to own all the company offices. But with Re/Max drowning in debt, Liniger opted for franchising as the only way to expand. Even that didn't work at first because he tried to sell the Re/Max concept to the wrong people.

Liniger set out to persuade independent brokers to convert their offices to Re/Max franchises. He failed because most agents in a typical real-estate office don't earn enough in commissions to make the monthly Re/Max franchise and overhead payments.

In 1977, Liniger hit on a strategy that clicked. He would sell franchises to entrepreneurial brokers who would build each Re/Max office from scratch, recruiting only top-selling agents from traditional brokers.

Re/Max now had its act together. It grew by 316 agents that year, nearly twice the number who had joined in the company's first four years. "Our cash flow exploded, we took over the Denver market, we paid off our debts, and the rest is history," says Liniger.

It wasn't quite that easy. Re/Max still met vigorous resistance from the real-estate establishment everywhere it went. Even so, the company repeated its Denver success again and again in cities such as Chicago, Dallas, and Atlanta. Re/Max entered Canada in 1980 and rose to dominate the market there by 1986.

As Re/Max prospered, Liniger turned his attention to devising various bonus plans to reward the support staff and managers based in the Denver home office. Everyone qualifies for a quarterly bonus that can equal 15 percent of salary over a year. And managers can earn an additional 25 percent of pay under a separate bonus plan. All bonuses are tied to fulfillment of department or company-wide goals.

Hard work pays even bigger dividends for Re/Max officers. Dave and Gail Linger periodically give top managers opportunities to become entrepreneurs themselves by offering to sell them minority stakes in franchise regions or spinoff businesses. For example, company officers own 49 percent of both the Re/Max corporate-relocation service and its insurance service. "We've always tried to tie our officers into us," says Dave Liniger. "Besides, it isn't any fun to get rich by yourself."

As for the future, Liniger's optimism seems boundless. "We are finally the undisputed No. 2 in the U.S., and we'll make No. 1 in 1991," when he expects the number of Re/Max sales transactions to surpass those of Century 21. He predicts Re/Max won't stop growing until it has 80,000 U.S. agents and accounts for 35 percent of all residential real-estate transactions.

The confident words are vintage Dave Liniger. But one important change has occurred since he proclaimed such goals back in the early '70s: Now people listen. NB

Women In Business

Ideas, insights, and information to help women compete and succeed in the marketplace.

RETAILING

Getting Into An Upscale Mall

By Mary Beth S. Marklein

By the time it was a year old last December, Bows and Braces, a men's-accessories shop in the well-visited Union Station mall in Washington, D.C., had drawn repeat business from as far away as Australia. Pretty heady stuff for a couple of retail novices. Ayanna Najuma and her former boss, Vernon Patterson, owner of a construction management company overseeing the station's renovation, had opened the shop at the urging of Union Station's developers, who were impressed by his style of dress. Though Najuma and Patterson—who since have left the business—lacked retail experience at the start, their venture was right for a mall like Union Station, says developer Michael Ewing, a partner with Baltimore-based Williams Jackson Ewing. "In order to make a project like Union Station new and different, you have to take these kinds of risks."

That's reassuring news for aspiring women retailers who fear that a lack of experience will keep them out of an upscale mall. "You don't have to have experience. All you have to do is be resourceful," says Najuma, who moved on to host a radio talk show on women and business.

Creative ideas are the key, according to Stacey Siegel, owner of Everything but Water, an Orlando, Fla.-based swimwear company with outlets in 20 malls across the country. If you have a striking concept, she says, "you can surround yourself with professionals" to handle the business end.

Being unique is more valuable than having a proven track record or strong financial backing, explains Siegel, who carved her swimwear niche by emphasizing fashion over function. Developers, she says, want businesses that offer an unusual or trendy product or service, fill a void, or complement the mall's mix of tenants.

Many developers are so eager for freshness that they offer special deals to innovative first-timers. Equity Properties and Development Co., of Chicago, offers an "incubation" plan that allows beginners to "test out their ideas without making a full-blown commitment," says Sharon Polonia, vice president of specialty leasing. Retailers begin with a short-term lease in low-rent booths or carts that require little capital investment. Then, "if things work out for them, we'll try to get them in on a long-term basis," says Polonia, whose company operates 17 major shopping centers across the nation.

In her six years with Equity, Polonia says she has seen an increase in women inquiring about opening shops in malls: "Women sometimes have more of an intuitive sense about retail because they shop more than men. They know what it feels like to be a customer."

Still, developers are choosy. At least half of the inquiries she receives come from people with no retailing background, says Polonia, and of those, only about one-third make it past the talking stage. Typical downfalls include poor preparation, lack of commitment, or tired ideas.

"When you talk to seasoned developers, they've heard it all before," says E.W. Spieckerman, a leasing consultant based in the Dallas-Fort Worth area. "It's a selling job. You're selling yourself, you're selling an idea, and you're selling your certainty that you'll make it if you get a break."

Judy Watt says she "pestered" the management of Suburban Square near Philadelphia for space to open a poster shop despite nominal retail experience. After endless unreturned phone calls, she says, "I just took the elevator to the office and asked if I could speak to somebody." Her boldness paid off. In 1979, she opened her shop, and by 1987, she had expanded Jennica Watt Gallery to four times its original size. In 1988, she opened a second store—at Union Station.

In getting into a mall, she says, "the name is important. Go in with a good name. 'Jennica' always engenders questions." The store is named after Watt's daughters, Jennifer and Jessica.

But starry-eyed newcomers should be forewarned, Watt says. Once in business, the work has just begun. "People say, 'I'd love to own a store like this,'" Watt says. "Hey, you'd better love it so much that you're there 14 hours a day, seven days a week." NB

PHOTO: © SAL DIMARCO—BLACK STAR

Tired of unreturned calls. *Judy Watt won a place in a mall for her poster shop when she showed up in the management's office.*

Mary Beth S. Marklein is a free-lance writer in Chevy Chase, Md.


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Instant Orders

If you haven't met EDI, you will soon. Electronic data interchange is streamlining small firms' operations nationwide.

By Leila Davis

To increase the speed and accuracy of such operations as placing orders and controlling inventory, small firms are turning to a rapidly growing computer technology known as EDI—electronic data interchange.

An EDI system—regardless of its size or sophistication—can help a small firm achieve the same efficiencies achieved by larger companies that have been exchanging data electronically for years. Companies that use EDI generally report that their merchandise orders are filled much faster and with few or no mistakes.

"[We're] able to get our orders filled faster. We are out of stock less, and there is now no chance of our orders being lost in the mail."

Several of the independent retailers who sell Hallmark greeting cards, for example, are finding that merchandise orders via EDI are transmitted and received error-free at the company's Kansas City, Mo., headquarters and are acknowledged in seconds. Marian Robbins, manager of Lynn's Hallmark store in Pasadena, Calif., says the major incentive for adopting EDI "was being able to get our orders filled faster. We are out of stock less, and there is now no chance of our orders being lost in the mail."

It has been common practice for larger companies to use computers and modems to transmit purchase orders, invoices, shipping information, and other data. Now, as the EDI industry standardizes more and more of the business forms that appear on EDI users' computer screens, the technology is gaining wider appeal. Many large businesses now find EDI beneficial for their communications not just with one another but with smaller firms as well.

As a result, smaller companies are being urged by their larger customers or suppliers to adopt EDI, says Jerome Dreyer, executive director of the Electronic Data Interchange Association (EDIA), in Alexandria, Va. He says most larger companies prefer "partnership" arrangements, educating the smaller firms with which they do business to understand EDI's benefits and to help them use the technology. EDIA also offers help through seminars and publications. (See the box on Page 36.)

EDI technology can be as simple as a hand-held order-entry terminal with a modem, like the one that Hallmark retailers use. Or it can be as sophisticated as fully integrated computer applications that share data with other computerized systems in separate departments of a company, such as manufacturing, materials and inventory control, order entry, shipping, billing, receivables, and sales and marketing. Most common for smaller firms—and for many larger companies adopting their first EDI system—is a personal computer with a simple "load-and-go" EDI software package.

Hallmark has taken two separate approaches to EDI—one for its own suppliers, another for retailers. For the suppliers, the company recommends a standard PC-based EDI system; in some instances, the company has told suppliers they stand a better chance of doing business with Hallmark if they have EDI systems. For its generally small, independent retailers, Hallmark has created a simple, proprietary EDI ordering procedure using a hand-held terminal made by Telxon Corp.

At Lynn's Hallmark in Pasadena, owner Robert Cross at first was not interested in the hand-held terminal Hallmark offered to the store as a test, and manager Robbins says she was "always a little fearful of computers." But the Hallmark sales representative convinced both that the CrownLink EDI system would help their operation. "It's so wonderful," Robbins now says. "It frees me up to do so much more in the store. The time it saves can be used to put out new seasonal merchandise instead of letting the old stuff sit there, not selling, while I take inventory or count up order information."

The terminal's $900 cost is usually offset within a year by savings achieved through more efficient staffing and inventory management, says Shere Parker, Hallmark's CrownLink administrator.

The hand-held terminal is taken throughout the store for scanning of bar codes on each card-display pocket. The inventory information is transmitted to Hallmark, which mails back a printout of the merchandise and dollar volumes. "Before, we had to collect tickets from each card pocket and figure them up, then mail them to Hall-

Leila Davis is a free-lance writer in Alexandria, Va.


PHOTO: ©MARK RICHARDS—SIPA

At Lynn's Hallmark card store in Pasadena, Calif., Manager Marian Robbins, left, takes inventory with a hand-held terminal that, through use of a modem,

also transmits data to Hallmark's company headquarters, in Kansas City, Mo. There computer operator Denise Asbury, in the second photo, supervises the printing of

mark," Robbins says. "If they got lost in the mail, all our inventory information was lost." Unlike most EDI systems recommended by industry associations, consultants, and large corporations—systems that comply with the growing industry standards—CrownLink is a proprietary system that cannot be used with any of a store's other suppliers.

For its suppliers—companies that probably have business ties with many other customers—Hallmark has taken a more general approach to EDI. One such supplier is Lawrence Photo-Graphic Inc., in Kansas City. The $40-million-a-year company is the exclusive source of Hallmark's graphic-arts supplies, such as photographic film, typesetting equipment, and inks. E. Fred Schick, executive vice president of Lawrence Photo-Graphic, says, "We had been looking at EDI for a while, but when we were being considered as Hallmark's supplier, they made it clear that being EDI-capable was a requirement to capturing their business.

"Hallmark left it up to us as to how we wanted to set up EDI, but they did recommend General Electric Information Services Co.'s EDI Express software. Right now, we just use it on an IBM AS400 PC to capture Hallmark's order information, then we print it out and re-enter it into our distribution system. But we are working on integrating it with other systems, and soon we will pass the data electronically to distribution."

Many companies, even some major ones, start with that type of paper-based EDI system, says David Taylor, a vice president of the Gartner Group, a consulting firm in Stamford, Conn. Such a system can help ease EDI into a company without triggering the resistance that can occur if departments balk at having their data integrated.

At Lawrence Photo-Graphic, the EDI system has proved beneficial since it went into use last December. "We are getting our orders processed much faster," says Schick. "If we receive an EDI order from Hallmark at 10:00 a.m., we can deliver that merchandise by 1:30 p.m. the same afternoon. We can't provide that kind of service without EDI. Our non-EDI customers receive their orders on a one-day turnaround."

In his efforts to make the most of his investment, Schick is relying on an emerging national EDI standard administered by the American National Standards Institute. Called ANSI X.12, the standard pertains to the scores of general business forms that now can be handled on EDI systems. Although many industries have created their own EDI standards for their specialized needs, those are being brought together as subsets of the more generic ANSI standard. Most commercial EDI software packages now adhere to ANSI X.12. "We use ANSI X.12 because we want to use EDI with other customers as soon as we are experienced with it," Schick says.

Those other customers are typically smaller than Hallmark and probably are not using EDI now, says Schick, so Lawrence may find itself providing a helping hand to other firms. The company also expects to use EDI with some of its suppliers—companies such as Eastman Kodak—that are already using the technology.

Hallmark and Lawrence Photo-Graphic both use General Electric's value-added network services to carry the transmission, which avoids the problems of peak traffic hours and systems incompatibility that may occur with direct transmission.

The G.E. software cost the firm $4,000, Schick says. The firm already had the AS400, which continues to run other applications in addition to the EDI software. Schick says that the investment "gave us a competitive advantage, since we wouldn't have won Hallmark's business without it, and it reduces errors in ordering. Each order mistake costs both trading partners money."

Brian Wright, operations manager for Elec-Tel Supply Co., in Atlanta, is also running a paper-based EDI application. The company, a distributor of hardware for utility lines, was introduced to EDI when its largest customer, Georgia Power Co., asked Elec-Tel to consider EDI. Says Wright: "They are an important customer, so we said yes. Customer relations was a prime consideration in the decision. We like to be viewed as a good supplier."

> *"We are trying hard to get the small guys to computerize, because if they don't do so, they will disappear."*

The 20-employee firm has no technical staff, and it did not want to disrupt its business operations to introduce EDI. Georgia Power recommended Grace Computer Resources in Atlanta and worked with both companies to make sure Elec-Tel's installation went smoothly. Grace, which does business with IBM, provided the software and support. The software is now available

PHOTO: ©CHUCK KNEYSE—BLACK STAR

the card-order forms transmitted by EDI from retailers such as Lynn's in Pasadena. The printouts are mailed to the retailers, and the orders are filled by employees such as Sandra Williams, right, at Hallmark's Distribution Center, in Liberty, Mo. In buying its own supplies, Hallmark too uses EDI technology. The card

PHOTO: ©CHUCK KNEYSE—BLACK STAR

for under $1,000, Wright says. The package was installed on an existing PC at Elec-Tel.

Wright says the EDI investment already has paid off in two ways: He kept a good customer happy, and he has made it much easier for his firm to receive order information, bid awards, and requests for quotes.

Georgia Power sends out most of its requests for quotes electronically now via EDI, and suppliers can respond quickly. As a result, it has cut the time it allows for responses from eight days to four.

Another major company taking advantage of the economies of bringing many small firms onto EDI is Levi Strauss & Co., the San Francisco-based manufacturer of jeans and other apparel. While many department-store chains already use some form of EDI, Levi Strauss wanted to introduce EDI—and computerization in general—to its many small customers.

"We are trying hard to get the small guys to computerize, because if they don't do so, they will disappear," says Ralph Briskin, manager of LeviLink, the name that the firm has given to its collection of various computerized business services. The services are designed to facilitate ordering, stocking, receiving, analyzing sales, invoicing, and paying for Levi Strauss products.

Levi Strauss would like to see small retailers install bar-code inventory-control systems that start at a point-of-sale terminal and are integrated throughout the store to include purchase orders, billing, and receivables. EDI would be a key part of the total store-management system. LeviLink's store-management system is aimed at retail chains with 10 or more stores.

For More Information

To learn more about EDI, start with industry trade associations; most have EDI research and education committees. In the forefront on EDI are the automobile, transportation, manufacturing, and retailing industries.

The Electronic Data Interchange Association sponsors an annual conference and frequent seminars on EDI, and it offers help to companies of all sizes through publications and other educational materials. Contact EDIA at 225 Reinekers Lane, Suite 550, Alexandria, Va., 22314; (703) 838-8042.

Another source of published materials on EDI is EDI-Spread the Word, a consulting firm and industry clearinghouse that can be contacted at 13805 Wooded Creek Drive, Suite 100, Dallas, Texas 75244-4754; (214) 243-3456.

Five years ago, Levi Strauss began searching the market for a system to recommend to retailers with fewer than 10 stores. At about the same time, Donna and Virgil Mashburn, owners of Clothing Carnival in Unadilla, Ga., started looking for a computer system to support their store's $1.2 million worth of business in jeans and casual clothing. They wanted a system to do accounts payable, general ledger, point-of-sale, bar-coded inventory control, purchasing—everything except payroll, which is done by a separate company, says Donna Mashburn.

They heard that Levi Strauss, which supplies about 50 percent of their merchandise, was evaluating computer systems to recommend to its smaller stores. Says Donna Mashburn: "Levi selected AT&T's EDI Retail package because it wanted a system that could be serviced anywhere in the U.S. and that would offer a complete store package for a reasonable price."

The hardware is an AT&T 6386 minicomputer, which operates with point-of-sale terminals and printers. A Telxon hand-held inventory unit like the one used by Hallmark retailers can also be incorporated into the system.

Both Mashburns are sold on EDI. "If you are going to have a computer to do everything," says Virgil Mashburn, "you should be able to do EDI." He says speed and accuracy in placing orders are its primary benefits.

The Mashburns' system includes two point-of-sale terminals that capture sales information and update inventory automatically. With all their accounts on the system, they can use their sales data to plan future merchandise orders and control inventory. Although the complete system cost $42,000, significantly more than the PC-based EDI packages, it also was almost totally turnkey, Virgil Mashburn says.

Levi Strauss does not require its retailers to use EDI or to use AT&T's package, but it does consider its recommendations as part of its role of fostering good business relationships. Says LeviLink's Ralph Briskin: "Since 1985, I have seen many of the retailers—big and small—who said they weren't interested in this technology get swallowed up. If you don't invest in your future, you won't have one." NB

To order reprints of this article, see Page 68.

manufacturer's orders for graphic-arts materials from Lawrence Photo-Graphic, in Kansas City, are received through the firm's EDI system by Holly Ramsay, special-accounts manager, left, and are filled by Roy Still, right. Through EDI, Hallmark can receive orders the same day they are placed.

Barbados

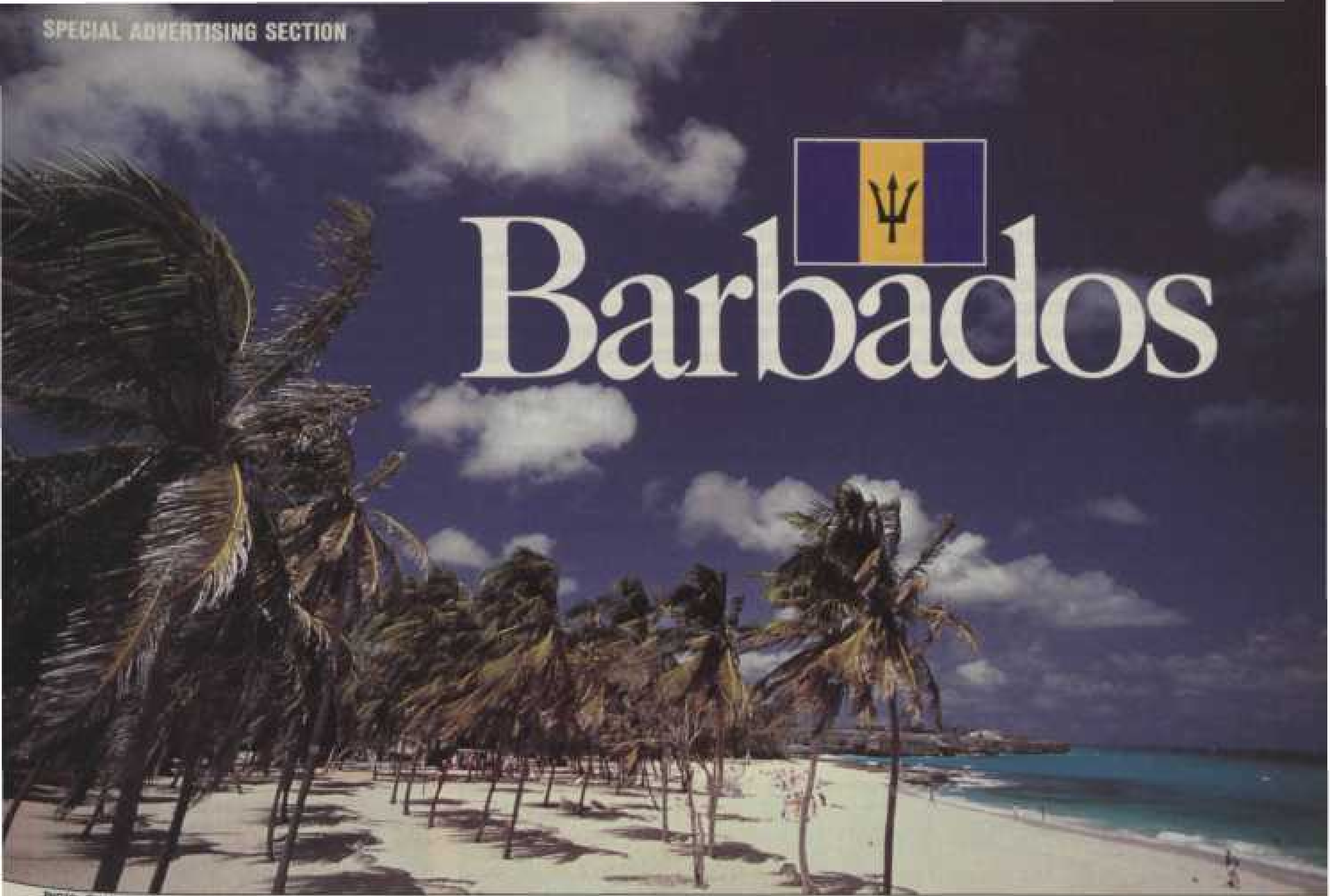

PHOTO: ©HARVEY LLOYD—THE STOCK MARKET

PHOTO: ©BROOKS LaTOUCHE

PHOTO: ©KASZ MACIAG—THE STOCK MARKET

Ronald L. Wolfe knows the printing business.

Wolfe's first job with R.R. Donnelley & Sons Co., America's largest printer, was some 25 years ago in a press room in Indiana. Since then, Wolfe has been promoted by Donnelley to numerous supervisory and management positions in several states. And last year Wolfe was named senior vice president and managing director of Donnelley Caribbean Graphics, a 2-year-old, wholly owned subsidiary of Donnelley, based in the St. Michael parish of Barbados.

In view of Wolfe's long and broad printing experience, it is noteworthy that he is "very, very impressed" by the aptitude and work ethic of Donnelley Caribbean Graphics' more than 80 employees. All are natives of Barbados, who are referred to as Barbadians.

Donnelley Caribbean does the precise black-and-white photographic and other film work required to transform typeset book manuscripts and related photos into printing-press plates. "We use very state-of-the-art equipment here, and our people are doing a wonderful job with it," says Wolfe.

They are doing such an outstanding job, in fact, that Donnelley has just broken ground for construction of a new facility three times the size of the current one. When completed, the building, with its new equipment and additional Barbadian employees, will allow the firm to take over some four-color book work currently done at U.S. locations.

Similarly, AMR Corp. of Fort Worth, Texas, is euphoric about the data-processing services provided in Barbados by its wholly owned subsidiary there, AMR Caribbean Data Services.

In 1983, AMR Corp., which also is the parent company of American Airlines, encountered quality, productivity, and labor difficulties at its data-processing headquarters in Tulsa, Okla. The Barbados Industrial Development Corp. (IDC), the Barbados government's economic-development agency, which has a U.S. office in

New York City, encouraged AMR to consider the 165-square-mile island, about 275 miles northeast of Venezuela, as a home for its data-processing operations.

AMR weighed the negatives and positives of offshore operation—among the biggest of the positives was American's daily flights to the island's Grantley Adams International Airport. Subsequently, the firm founded AMR Caribbean Data Services in an IDC-owned building at the Harbour Industrial Park, not far from Barbados' capital city of Bridgetown.

American flies data to Caribbean Data daily. Employees of the firm, many of whom are college graduates, keypunch and manipulate the data to AMR specifications and send it back to the U.S. via the satellite-communications facilities provided by Barbados External Telecommunications Ltd.

Caribbean Data initially employed about 200 Barbadians and did only AMR work. In 1985, the firm took on some other U.S.-based clients. Now, it has about 820 employees, more than any other firm in Barbados. Like Donnelley Caribbean Graphics, Caribbean Data is expanding its physical facilities, and it expects to employ more than 1,000 Barbadians by mid-1990, says N. Vancourt Rouse, managing director-operations.

"We pride ourselves on being able to maintain higher quality and productivity than our clients can provide for themselves," says Rouse, who himself is a Barbados native.

Donnelley and AMR are but two of many U.S. businesses that have deemed Barbados the best site for their offshore manufacturing, service, or other operations. Why did they choose Barbados among the world's developing nations, almost all of which compete for foreign investments?

Like the others, Barbados offers substantial tax incentives to foreign investors in all economic sectors.

In general, Barbados' incentives include low tax rates, exemption from foreign-exchange controls, waiver of withholding taxes on dividends and interest paid, tax holidays and other special incentives for exporters, and income-tax concessions to firms in the international-business sector.

These incentives are substantial in the aggregate and would be reason alone to consider Barbados as an offshore home. Still, they are not unlike incentives offered by other nations. However, Barbados has many other things to offer foreign investors—things that, in total, no other country of the region can match.

Tax incentives aside, what are the factors that make Barbados so attractive to investors? They are numerous. The following summary is based on more than a dozen recent interviews of private- and public-sector experts on Barbados' economy.

PHOTO: © HARVEY LLOYD—THE STOCK MARKET

Labor Market. The three best reasons to invest in Barbados likely are the people, the people, and the people.

Almost all of the nation's approximately 250,000 people are literate in their native language of English. No wonder, considering that primary and secondary schooling is free and compulsory. University study is optional, but it is free for those qualified students who choose to attend.

Consequently, the Barbados work force of approximately 120,000 is easy to communicate with and train for everything from simple clerical work to supervisory, management, and technical tasks.

It is highly motivated, too. Barbados' unemployment rate is near 18 percent now. Consequently, those who are employed value their jobs highly, and therefore they are motivated and productive.

While pay scales are not as low in Barbados as in some other developing nations—they are high enough to generate a per-capita income of more than $5,000 a year—wages nonetheless are much lower than in the U.S. for workers with comparable education and skills.

Location. Daily flights to Barbados from New York City and Miami are only about 4 1/2 hours and 3 1/2 hours long, respectively. Access by sea is simple, too, through the modern port of Bridgetown. In fact, a large number of tourists visit Barbados by cruise ship.

Barbados' location makes it not only a convenient place to do business but also a beautiful one. The climate is as close to many people's notion of ideal as anywhere on earth: daytime high temperatures of about 75 degrees to 85 degrees Fahrenheit year round; average relative humidity of 55 percent to 70 percent; unceasing trade winds of about 7 miles an hour.

PHOTO: ©BROOKS LaTOUCHE

The Atlantic coast is more reminiscent of Wales than of a tropical island, and surfing and windsurfing are excellent. The Caribbean coast is an unbroken chain of beautiful beaches.

As you would expect of a location with an economy highly dependent on tourism, Barbados has first-rate hotels and other short- and long-term housing, a new convention center, modern stores and shopping malls, good food at all prices, and excellent water, electricity, and telephones.

Roy Clarke, general manager of IDC, nicely sums up Barbados' natural appeal:

"It's a convenient place...to do business, and it's a safe, beautiful, enjoyable spot for the rest of the family to visit or live."

Government. "Stability" is a word used time and time again by those interviewed concerning Barbados' appeal to business. For example, John G. Bellamy, president of the Barbados Chamber of Commerce and Industry, believes the stability of Barbados is "second to none, and that really makes business people's minds rest much more easily."

The British colonized Barbados in 1627. In 1966, Barbados became a sovereign nation within the British Commonwealth. Not surprisingly, most of Barbados' government and legal systems are modeled after those of the British.

Barbadians have enjoyed representative government since 1639, and their Parliament is the world's second-oldest; England's is the oldest. Competition for power is generally between moderate political parties. Radical elements are notably absent from Barbados' politics and, for that matter, from Barbadian culture. In fact, Kurleigh D. King, governor of the

PHOTO: © BROOKS LaTOUCHE

PHOTO: © BROOKS LaTOUCHE

Central Bank of Barbados, believes his nation's political, cultural, and religious "homogeneity" is among its greatest strengths. "It makes [Barbadians] kind of like a large family," he says.

The island's legal system derives from British common law and statutes, and the country's laws are subject to judicial review.

Barbados is a member of the Caribbean Economic Community, or CARICOM, a 20-year-old economic confederation of the region's 13 English-speaking nations.

Barbados' governments historically are pro-business. Ministry and other agency staffs have been kept as lean and efficient as possible, and bureaucrats are sensitive to business's concerns. Barbados' relatively new international-business sector is a prime example of this. The complex laws and regulations essential to conducting multinational enterprises in the banking, insurance, and other industries were formulated by government hand-in-hand with private-sector lawyers, accountants, and consultants. The entire industry is really a kind of public-private partnership, which in part explains why it works so efficiently and harmoniously.

Business Infrastructure. "Tourism was the driving force behind making Barbados' infrastructure run effectively. Now that it is in place, business can ride on it," says Martin W. Beck, a partner in the Bridgetown office of the accounting/consulting firm of Ernst & Young.

The modern, efficient, $14-million Grantley Adams International Airport is served from North America not only by American Airlines but also by Air Canada, BWIA-International, Eastern Airlines, Pan Am, and Wardair. Air-cargo service also is provided by CARICARGO, and one-day delivery service for documents and packages is provided by major express companies, including DHL International, Federal Express, and United Parcel Service.

Bridgetown harbor's container-handling facilities were modernized recently at a cost of $16 million. A new east-west highway—the Adams-Barrow-Cummins Highway—opened just months ago, and construction is under way on a major north-south route. Barbados has eight major industrial parks, and expansion of them as well as construction of new ones are at various stages of planning or completion by IDC.

Barbados' telecommunications facilities rival those anywhere. The government-owned Barbados Telephone Co., or BarTel, provides excellent local service. The privately held Barbados External Telecommunications Ltd. provides dependable, low-cost service to the U.S. and elsewhere abroad. About half of the company's service to America is via microwave relay and land lines; the other half is via satellite.

Barbados also has in place a network of modern, reliable business services, including banks, accountants, lawyers, management firms, and consultants.

Market Access. Finally, officials point out that most goods produced in Barbados enjoy favored treatment upon export to many other markets.

With a few exceptions, exports from Barbados to the U.S. are duty-free under terms of the Caribbean Basin Initiative. Similar though somewhat less generous treatment is provided by the European Community and Canada under the Lomé Convention and CARIBCAN, respectively.

Where are the best foreign-investment opportunities in Barbados? Experts agree that they abound in all major sectors of Barbados' steadily growing economy: agriculture, tourism, manufacturing and services, and international business.

For three centuries, Barbados' economy was almost totally dependent on sugar production. For the past several decades, however, the government has been committed to reducing sugar's economic role.

Barbados is looking to foreign investors to join with local farmers in expanding

production of agricultural products other than sugar and related products such as rum, moving into products such as flowers and sea-island cotton.

Manufacturing has increased in Barbados in recent years with products as diverse as handicrafts and electronic components. Barbados is seeking much higher levels of investment in the manufacturing industries. This investment would provide many jobs and much foreign exchange. "Niche-market opportunities are the ones most likely to be rewarding," says Winston Cox, director of finance and economic affairs for Barbados.

For all of the reasons detailed above—but especially because of Barbados' outstanding work force—profitable opportunities abound in manufacturing, especially in the precision-electronics area.

Similarly, Barbados is seeking to boost investments in its service industries. The success stories of companies such as AMR Caribbean Data Services and Donnelley Caribbean Graphics say all that is necessary about possibilities in the services area. And the nation's data-entry capacity will be expanded substantially this spring, at which time IDC will open an ultramodern data center, where space will be available for leasing.

This 41,000-square-foot facility will provide excellent support to the information-services industry. It will serve as an earth terminal for collection and distribution of voice, data, and video information at competitive rates. Using Barbados as their domicile, data-processing-type operations will be extremely cost-effective.

Tourism in idyllic Barbados has continued to grow steadily over the years. Last year, about 500,000 tourists visited the island, the majority of them from America. Tourism is Barbados' largest source of employment, with the Board of Tourism stressing that in one or another way, every Barbadian takes part.

This increase in tourists has begun to strain Barbados' network of mostly mid-sized, locally owned hotels and guest houses. Virtually "can't miss" investment opportunities exist in almost every aspect of this industry, from hotel and golf-course construction to facilities management.

The international business sector is the fastest-growing in Barbados. The numbers of offshore banks, foreign sales corporations, exempt insurance and insurance-management firms, and the like have virtually exploded in recent years.

For more about opportunities in the international business sector, see the article that follows by Kurleigh D. King, governor of the Central Bank of Barbados.

In short, there are opportunities in Barbados for most innovative foreign business owners.

To learn more about the opportunities in your industry, write to Lawson A. Nurse, Director-North America, Barbados Industrial Development Corp., 800 Second Ave., New York, N.Y. 10017-4709. You can call Nurse at (212) 867-6420, or you can send him a fax at (212) 682-5496.

Economic Growth For The 1990s

By Kurleigh D. King

Barbados has entered a new era of economic development with the birth of the international financial and business sector.

The objective of successive governments in Barbados has been to attain full employment, price stability, and a sustainable balance-of-payments position. While success in tourism has been quite impressive and continues to be the country's major foreign-exchange earner, the sugar and manufacturing industries are currently experiencing problems.

Sugar output in the 1980s declined to an average 95,000 tons because of low world-market prices. Manufacturing suffered in the mid-1980s from the closing of several firms in the electronics subsector as a result of the worldwide collapse of memory-chip prices. Although in the past two or three years manufacturing output has begun to expand again, it may be some time before Barbados achieves its full potential.

It was inevitable, therefore, that Barbados should seek to expand its economic base. The nation needed to generate additional revenue and foreign exchange and to create job opportunities for a highly qualified and skilled labor force—Barbados' successful educational system has produced educated and trained people with high expectations of employment.

As early as 1965, Barbados enacted legislation in the international sector that permitted establishment of international business companies, but it was not until the early 1980s that this sector began to take off. Additional legislation was passed and international agreements were made for facilitating the operation of offshore banks and exempt insurance companies and offering Barbados as a domicile for foreign sales corporations.

For offshore banks and international business companies, there is a low tax regime, ranging from 1 percent to 2.5 percent on profits. Exempt insurance companies and foreign sales corporations pay license fees but no taxes.

A measure of our success over a relatively short period is the fact that there are now nine offshore banks, 600 international business companies, 176 exempt insurance companies, and 409 foreign sales corporations employing more than 1,000 Barbadians and generating foreign exchange of about $30 million annually.

Barbados is unique, having in place a network of tax treaties. Treaties exist with Switzerland, Denmark, Norway, Finland, the United Kingdom, Canada, the U.S., and Caribbean Community member states.

There also has been a new thrust in expanding the tax-treaty network, and Barbadian officials have recently initialed new treaties with Sweden and Norway. Barbados currently is negotiating with West Germany, and approaches have been made to some Latin American countries. Through the treaty mechanism, tax planners can avail themselves of attractive business opportunities for their clients.

The international business and financial sector is a thriving new feature of Barbados' export-led growth strategy. It is founded on the nation's political and economic stability, its state-of-the-art communications, well-developed infrastructure, professional expertise, and skilled work force. And it is supported by the pragmatism and simplicity of Barbados' legislation and regulations.

Barbados is confident that it will see tremendous growth in the international sector in the decade of the 1990s.

Kurleigh D. King is governor of the Central Bank of Barbados.

WORK FORCE

Retired—And Back At Work

Many executives view retirement as the beginning of a second career, and many small firms gladly put them on the payroll.

By Meg Whittemore

Retired executives are being coaxed back into the work force as consultants and short-term troubleshooters for companies large and small. These arrangements are proving to have pluses for both sides: The retirees return to work without the pressures of career building, and the companies they join gain instant, priceless experience. The advantages for both suggest that this trend will grow as baby boomers approach retirement age.

Retired executives offer their professional experience to businesses at reasonable rates (or as unpaid volunteers) through both nonprofit agencies and for-profit placement services.

"There are some real bargains out there for smaller companies in search of seasoned help," says Benjamin Borne, vice president with Boyden International, a Chicago-based executive recruiting firm. Borne, who is 65 and has worked for 35 years in human-resources management, foresees for the 1990s "a redefinition of the workplace in which second- or third-career professionals will be the norm."

New definitions of the workplace are certain to give retirees more options and flexibility in tailoring their working arrangements—more freedom in deciding when and how to work and when to devote time to leisure pursuits.

Retirement was just a transition to a new career for Douglas Wexler. He is now a vice president of operations with Amrep Corp., a Kennesaw, Ga., manufacturer and distributor of cleaning chemicals. He started his second career after taking early retirement from General Electric in 1987 at age 62.

"I made up my mind years ago that I wasn't going to stop working at age 65," says Wexler, who joined a mergers-and-acquisitions firm in his hometown of Atlanta.

A couple of years later, after reading a newspaper story about the Senior Career Planning & Placement Service (SCPP) in New York City, curiosity prompted him to contact the nonprofit organization, which puts retired executives into salaried jobs. Within three months, the organization had put Wexler in touch with Henry Picken, 48, president of Amrep.

Picken had been shopping for a vice president of operations to run his company's manufacturing, purchasing, inventory-planning, production, and distribution functions. A former business

PHOTO: T. MICHAEL KEZA

Advice *from retired financial executive Charles Sands, left, helped Shirley and Tom Collier start a successful computer firm.*

colleague recommended SCPP, and Picken liked what he found in Wexler's experience. "He had been trained in operations planning, materials management, inventory control, and all the things that Amrep needed," says Picken.

SCPP is one of several organizations that bring retirees together with typically small-business owners who need experienced help. For example, SCORE—the Service Corps of Retired Executives—has 13,000 volunteer counselors nationwide offering free advice, and its ranks are growing. (See the box on Page 40.)

"Age is good," says Borne. "Businesses today must concentrate on building strong, effective organizations, and the 50-and-older worker will be one of the keys to getting this done."

Not all retirees look for salaried positions, however. Charles Sands, 65, accepted a nonsalaried position as a small-business counselor with SCORE in Baltimore. He believed it was a way to share his experience as a financial vice president for a Baltimore-based group of construction and distribution companies. "When you've been in the trenches like I have, you develop an instinct for what will and won't work in a small business," Sands says. "I thought that knowledge might be useful to somebody."

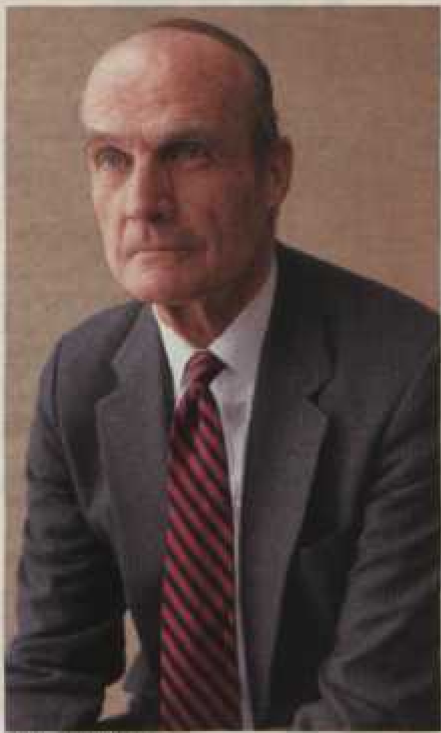

PHOTO: ©RICHARD DERK

Over-50 *workers will be crucial to businesses in building effective organizations, says Benjamin Borne, vice president of an executive recruiting firm.*

In fact, Sands' instinct and free advice saved Shirley and Tom Collier from taking what could have been a wrong turn in their attempt to start a business. In February 1989, the Colliers, both in their mid-30s, wanted to buy a retail computer store in Baltimore. "We were ready to sign on the dotted line for about $350,000," says Shirley Collier, "when the owner breached the contract and sold it to someone else. We were devastated."

Sands had been working with the Colliers throughout the negotiations, and when the deal fell through in August, he was standing by. "Charlie helped us focus on what we really had to offer the marketplace," says Tom Collier, "namely, consulting services to computer customers." The Colliers have strong backgrounds in the industry—she in data processing, and he in computer sales and network cable installation and service. "They really knew the computer business," says Sands. "All I did was ask questions and act as a facilitator."

The result was the birth of Paragon Computer Services Inc. last October. Since then, Paragon has acquired 25 clients, and the Colliers expect gross

Hiring Experience, Restoring Dignity

Boredom is the reason Bob Howard, 75, returned to work. After retiring from Exxon Shipping Corp. in 1982 as a chief engineer, he decided that a life of relaxation and recreation was not for him.

When his wife, Ida, told him about a forthcoming open house co-sponsored by BayBank, in Burlington, Mass., and a Boston-based group called Operation ABLE (Ability Based on Long Experience), he hesitated about attending. But his desire to get back to work overcame his hesitation. Howard was impressed with the presentations, and in December 1987 he was hired by the bank as a trust-operations clerk. "I think working brings back your dignity and shows that you are a needed, active, and contributing part of society," he says.

Maureen Higgins, assistant vice president of trust operations, says: "Bob is a perfectionist, and that is clear in the work he does at BayBank. I wish I had 100 employees just like him."

Bob Howard is one of about 10,000 older workers in the Boston area who have re-entered the job market within the past six years with the help of ABLE's partnerships with private companies, organizations, and government agencies.

ABLE, affiliated with the Greater Boston Chamber of Commerce, was started in 1983 by Ezra Merill, former president of H.P. Hood, a Boston-based dairy company, when he was 70. Earlier in his retirment years, Merill had volunteered his services at a local hospital and was put to work in the mail room. He believed he was capable of doing more, and he started Operation ABLE.

Merill structured the private, nonprofit organization to help capable older adults find jobs in which their skills and experience would be valued. For employers, Operation ABLE provides candidate screening and referral; for job seekers, it provides career counseling, outplacement seminars, skills-development training, and job matching.

Encountering labor shortages in certain skilled fields, many employers are deciding "they have to go to alternative sources for employees," says Robin Battista, ABLE's executive director. She adds that the area's older-worker population offers "such a wealth of talent, especially for full- and part-time professional positions." About 300 candidates are expected to be placed in jobs this year, according to Battista, and the average annual salary will be $40,000.

Nonetheless, older workers looking for jobs do face certain hurdles. One of the most common concerns among employers is that the older worker is overqualified. Battista encourages employers to understand the motivation and value of mature workers. "Many aging professionals have changed their ideas about job requirements," she says, "and flexibility and job satisfaction are more important now."

Often, older workers would rather not have the responsibility of a management position. "A mechanical engineer, for example, who has been a manager may prefer to go back to the drawing board," says Battista.

The idea of hiring older workers is catching on. Smaller businesses typically knock on ABLE's door looking for one or two retired executives with years of experience to handle a number of functions. John Gormley, who contacts businesses on behalf of ABLE, says: "They can hire these people who have had a broad-based career in many disciplines and realize a substantial savings at the same time."

Operation ABLE can be contacted at the World Trade Center, Suite 306, Boston, Mass. 02210-2004; (617) 439-5580.

—Paul Spiers


A REMINDER OF
HOW MANY THINGS ARE BUILT
AROUND A STRONG CENTER.
Just as things in nature expand and grow from the center, business expands naturally from Missouri.
We're the geographic and population center of the country. At the crossroads of ten interstate highways, the second and third largest rail terminals in the country, and the second largest inland waterway.
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PHOTO: T. MICHAEL KEZA

The guiding hand *of a SCORE volunteer steered Betsy Grater away from a costly marketing effort for her bed-and-breakfast reservation service.*

sales of $340,000 this year. "If Charlie had not been with us during this period, I know we would have bought another computer store," says Tom Collier, "and that would have been a big mistake."

Having a retired executive join a business often has a positive impact on the bottom line. The economic benefit, says Henry Picken, is that "you are buying proven experience, and you have an individual who is no longer concerned with career advancement." That means you have a high level of commitment and attention to the job, he adds, "and over the long term, that saves money."

For Betsy Grater, having the helping hand of SCORE counselor Milton Firey, 84, meant avoiding a costly marketing campaign for her newly acquired bed-and-breakfast reservation service. Grater, who had purchased Amanda's Bed & Breakfast Reservation Service in 1985, decided to expand her market reach.

"My biggest challenges were visibility and marketing," Grater says. "I had grandiose ideas that the corporate world would use B&Bs for business travel to Baltimore and Washington, and I wanted to spend my money going after that market."

Firey, who had run a string of East Coast hotels with a partner for several years, helped Grater to focus on attracting B&B customers who lived in Maryland and adjacent states. "Betsy has lots of creative ability, and much of what I did was to offer advice to prevent her from going off in 16 different directions," says Firey.

Since Firey offered his advice, Grater's reservation service has grown, from handling reservations for 30 inns in 1986 to servicing more than 100 B&Bs in a six-state region.

It was Firey's recommendation that brought Grater's market plan into focus, she says, and she still stays in touch with him. "When you have your own business, you don't have a board of directors to turn to for ideas," says Grater. "Having Milton in my corner gave me a sense of having someone who showed a strong interest and support for my business."

In addition to the technical business knowledge that an experienced executive can supply, companies often get the unexpected benefit of having a mentor. Says Tom Collier of the formation of his business: "Charlie [Sands] kept us sane during that time and mentored us through the process."

Executive recruiter Borne says, "The need for having someone who has mentorship qualities is immense, especially when the company consists of bright young people."

Wexler says working with young people at Amrep's four plants is challenging because "it helps me do what I think most managers forget to do, which is be a teacher part of the time."

One of the unheralded bonuses of working after retirement is the absence of the pressure for promotions and career advancement. "At my age," says Wexler, "I'm not looking for promotions, and I am not interested in where I'm going to be five years from now. I'm just enjoying myself."

As the baby boomers approach their 50s, the concept of retirement itself may be retired as companies begin to embrace the often overlooked contributions of the retired, or older, worker. Says Borne: "Older executives are not thinking 'gold watch' any more. Those workers with motivation, energy, brainpower, and experience—namely the aging professionals—will be the ones to move business in new directions and help maintain its competitive edge." ■

For More Information

These organizations can tell you more about programs for retired executives:

Senior Career Planning & Placement Service (SCPP), 257 Park Ave. South, New York, N.Y. 10010; (212) 529-6660. Finds retired executives for salaried posts.

Service Corps of Retired Executives (SCORE), 1825 Connecticut Ave., N.W., Suite 503, Washington, D.C. 20009; (202) 653-6279. A program of the U.S. SBA; offers free counseling and workshops through 761 local offices.

National Executive Service Corps (NESC), 257 Park Ave. South, New York, N.Y. 10010; (212) 529-6660. Finds retirees in specialties such as planning, marketing, and fund-raising for nonprofit organizations.

International Executive Service Corps (IESC), P.O. Box 1005, Stamford, Conn. 06904-2005; (203) 967-6000. Offers volunteer counselors for business and government in developing countries.

ENTERPRISE

How Firms Coped After Hugo

Hurricane Hugo showed how small firms can adapt quickly to changed conditions.

By Mary McElveen

Michael Allen's business came to a near standstill after Hurricane Hugo slammed into Charleston, S.C., last fall, but it wasn't long before his entrepreneurial skills helped him recover.

Most of the work done by Coastal Engineering and Technology Inc., where he is president and principal owner, involves testing soils and materials at construction projects. But the emphasis in Hugo's wake was on debris removal and rebuilding—not construction from scratch—and Coastal Engineering found itself with little work for its 15 employees.

Allen volunteered to help in the cleanup effort in Mt. Pleasant, the Charleston suburb where he lives, and it soon became obvious to his managerial eye that the project was plagued by serious inefficiencies. He recognized that while his company lacked specific experience in disaster-cleanup work, it was well-grounded in other critical factors needed in recovery efforts—management know-how, negotiating skills, and an ability to plan, coordinate, and monitor multifaceted projects.

Eager to get their town back in order, Mt. Pleasant officials accepted Allen's offer to provide the services of his firm at an hourly rate. Coastal Engineering wrote specifications for 18 areas of the town, participated in pre-bid conferences and contractor selection, and supervised the four-month cleanup.

Allen, who founded his testing company with four employees six years ago, says, "If you have good employees who are well-rounded and basically smart and you point them in a new direction and explain the scope of the work, they'll do a good job for you."

The Mt. Pleasant cleanup project, he says, "confirmed to me that we have a top-quality team. The experience gave us the confidence to know that we can perform in other service areas. The key then was to determine what other areas we could apply our specialties to." The company has expanded its operations to include environmental services and structural inspections of homes, and it is seeking other areas for diversification.

The experiences of Coastal Engineering and other Charleston area firms in the aftermath of Hurricane Hugo provide some insights into one of the greatest strengths of smaller firms, the ability to adjust rapidly and efficiently to changing conditions, including those caused by natural disasters.

PHOTO: T. MICHAEL KEZA

Entrepreneur *Michael Allen, right, discusses construction-site soil conditions with employees Mark Sargeant, left, and Jeffrey Allen.*

That ability was critical to the survival of a wide range of enterprises in Hugo's destructive path.

In the coastal community of Garden City, S.C., Garden City Realty Inc. came up with a novel idea to offset losses incurred when storm-damaged properties had to be withdrawn from the rental market. The realty company teamed up with a local construction firm in forming GCR Construction Co. to restore the damaged properties. "We had the customers—the homeowners whose properties were damaged or destroyed—and the construction company had the building expertise," says Judy Walton, office manager for the realty firm.

Wade Faucette, owner of a service station in Charleston, says the need for major reconstruction helped him make a decision about the future of his business. Operating out of a wooden shack as a temporary office, he converted the space that had been used for two service bays into a convenience store. "It's getting harder to find qualified mechanics," he said. "We'll be able to operate with fewer employees with a store in place of the service bays."

Myrtle Beach Golf Holiday Inc., an association of 53 golf courses and 68 hotels, faced a different kind of challenge in the wake of the storm—getting the \$200-million-a-year golf industry back into business as quickly as possible and getting the word out when that was done.

The recovery efforts included those of Fred Meda, general golf-course superintendent for Myrtle Beach International, which operates a 54-hole complex. "We had about 600 trees down on the three courses, but we were determined to re-establish golf here as quickly as possible," Meda said. "In a situation like this, you find out which employees are dedicated. We had a full maintenance crew on the job by 10 o'clock the morning after the storm. We had our west course reopened two days after Hugo, and we were in full operation within 10 days."

A major worry was that guests planning to travel to the area would assume the courses would be closed for some time and would go elsewhere for their

ENTERPRISE

golf vacations. Douglas Hart, general manager of Myrtle Beach Golf Holiday, worked overtime to send word to a mailing list of 750,000 that the courses were mending quickly.

As a result of those efforts, he says, reservations for golf packages stayed strong despite the massive publicity given the destruction that the storm caused in the area.

Hart says that the most lasting effect of the storm will be improved scores for those using the courses: "There will be fewer trees in their way when they're coming out of the rough. Their scores will improve."

When Tommy Condon, owner of an Irish pub, looked over the list of storm damage at his establishment, he found that he had to replace the freezers, refrigerators, ovens, floor, ceiling, roof, and furnishings. He saw the rebuilding as an opportunity to improve on the old decor, so he went to Ireland to obtain the materials for that task.

Despite the massive devastation and challenges of reconstruction, few entrepreneurs gave up. Gene Kvassay, commercial-claims specialist serving a primarily small-business clientele for State Farm Insurance Companies, reports that among the more than 1,330 claims he handled, only one business owner decided not to start over.

The typical entrepreneurial attitude was expressed by the owners of The Atlantic, a landmark ocean-front restaurant in Folly Beach, S.C.

A pile of rubble was all that was left of the famed establishment, but that rubble bore a sign stating: "Atlantic II. Opening Soon."

How To Prepare For Emergencies

Dowty Polymers Inc., of North Charleston, S.C., was one of the many businesses that learned an important lesson from Hurricane Hugo: To be effective, plans for coping with emergencies should anticipate the worst.

The company's president, Ron Fowler, said that the extent and the severity of that storm last summer rendered ineffective his disaster plan. For example, he said, emergency planning called for using another company's computers if his went down, "but there was no power within 100 miles of here after the hurricane."

Storm warnings enabled the 14-employee company to ship as much inventory as possible, but 20 percent of what was left in the warehouse was damaged by rainwater that poured in after roof seams opened and a wall caved in. As heavy rains continued after the storm, employees were dispatched to neighboring states to obtain tarpaulins, plastic, plywood, generators, and fuel. But, Fowler said, "we found we weren't too skilled at things like roof repair."

In developing a new emergency plan, Fowler said, he would stockpile materials for damage control, then identify workers who could form teams to make at least temporary repairs of machinery and structures as well as electrical, computer, and telephone systems.

But even a disaster-plan that doesn't work out as intended can be an important resource when disaster strikes.

"Your thinking is not very organized after a major disruption, and a plan helps you address the situation in an organized way," says Paul Campbell, senior vice president of Alumax of South Carolina, an aluminum plant in Goose Creek. "It helps define your response, even if the situation simply involves a thunderstorm knocking out your computer."

After Hugo lashed the Charleston area with gusts to 150 mph, Alumax encountered far more than an inoperative computer; it lacked sufficient electricity for production for six days.

While the storm's rampage was limited to a relatively small area of the country, emergency-planning experts say that most businesses are susceptible to disasters such as hurricanes, tornadoes, floods, earthquakes, blizzards, fires, and power outages.

Robert S. Wilkerson, president of the Corporate Response Group Inc., a Washington, D.C., consulting firm specializing in crisis management for companies, said an emergency plan should cover:

- Ways to protect inventory and minimize further damage or loss after the disaster;
- Procedures for communicating immediate recovery steps to workers and others who need to know;
- Protection and restoration of critical records;
- How to meet financial needs through insurance, letters of credit, and other sources;
- Legal obligations to continue in business;
- What help is available from state, local, and federal programs;
- Potential personal and personnel ramifications;
- Potential market requirements and opportunities that might result from a disaster.

EDUCATION

Lending For Learning

The ConSern program offers a helping hand for middle-income families, who often don't qualify for federal education assistance.

By Joan C. Szabo

At a time when the nation's businesses are stressing the importance of a better-educated work force, federal aid to college students is expected to face further budgetary reductions in the 101st Congress.

To address the growing need for college financial assistance, many business people are launching innovative ways to help educate tomorrow's work force. One highly successful initiative is the private-sector loan program called ConSern. Providing students and their families with low-interest loans that can be paid back over a 15-year period, the program is especially beneficial for middle-income families, who often fail to qualify for many of the federal assistance programs.

"Growth in the 3-year-old program has been phenomenal," says the Rev. John P. Whalen, ConSern's founder and president. To date, nearly 11,000 firms are enrolled, and more than 5 million families are eligible to apply for ConSern loans. The program has disbursed over $100 million in loans so far.

Whalen expects disbursements to reach $200 million this year. "We have just scratched the surface," he says. "The cost of college keeps rising, and people are having to look more toward loans to get their kids through college."

Due to its unprecedented growth, the program now is one of the country's top private lenders for supplemental student loans, and it ranks among the top 30 U.S. lenders for student loans of any kind, says Whalen.

ConSern has been designed by leaders in higher education and business, it is backed by major financial institutions, and it is administered by a nonprofit organization.

To offer this loan benefit to employees, companies must maintain membership in the U.S. Chamber of Commerce. Once membership is established, employers can participate in the loan program for as little as $25 a year, based on the number of employees. The participation fee is tax-deductible as a business expense.

The program is especially easy for employers to offer as a benefit. When a company signs on as a participant in the program, a corporate accounts manager from ConSern provides the employer with informational brochures and application packets to distribute to employees. In addition, ConSern supplies a complete communications package to help companies explain the program to employees.

ConSern takes care of loan processing and employee inquiries. Companies offering the program assume absolutely no liability when the loans are made available to employees.

The loans may be used by an employee and his or her family for private secondary schools and for both undergraduate and graduate programs in accredited colleges and universities. The loans are available for many education-related expenses, including tuition, room, board, books, and computers.

Employers who participate in the program say it is extremely worthwhile. "It is an inexpensive way to provide an important benefit to our employees," says Bruce Mindlin, controller of Airoyal Co. Inc., an industrial-parts distributor in Maplewood, N.J. Mindlin says about five of Airoyal's 30 employees currently use the program.

One of ConSern's most attractive features is the size of the loan offered. An employee can borrow up to $25,000 each year and up to $100,000 altogether. The average size of a loan now issued is $6,200 per year.

In addition, it is possible to take up to 15 years to repay the loan. The principal

ConSern is an inexpensive *but "important benefit to our employees," says Airoyal Co. Controller Bruce Mindlin, left, reviewing a loan application with Larry Strowser.*

PHOTO: ©LARRY BARNS—BLACK STAR

What A ConSern Loan Costs

Annual Interest Rate	Monthly Payment* For 15 Years Per $1,000 Borrowed
10.0%	$13.81
10.5	14.22
11.0	14.63
11.5	15.04
12.0	15.45
12.5	15.86

*Both principal and interest.

PHOTO: ©LARRY BARNS—BLACK STAR

The ConSern loan *that her father obtained for her helps pay Sarah Strowser's expenses at the New Jersey Institute of Technology, in Newark.*

may be deferred while the student is in school, up to a maximum of four years' deferral. Interest payments still must be made. They start approximately 30 days after the loan is disbursed. A ConSern loan may be repaid at any time with no prepayment penalty.

Commercial lenders, on the other hand, typically will lend no more than $5,000 for an unsecured loan and require repayment—both principal and interest—over three to five years. There generally is no deferral of principal repayment with a commercial lender. Interest rates typically are 4 to 8 percent higher than the interest rate on ConSern loans.

To apply for a loan, the student must be accepted or enrolled in courses leading to a degree or a diploma. In addition, the student or the cosigner must meet ConSern's credit criteria, which consist of an evaluation of credit reports and information on income and debt. The borrower pays a one-time discount fee of 3.5 percent to cover insurance on defaults.

The default rate on the program is extremely low—"less than 1 percent," says Father Whalen. He attributes this to the fact that the loans are made on the basis of credit requirements. Unlike the federal education-loan program, ConSern loans are not made on a family-income test.

Interest rates for ConSern loans are competitive. They are tied to the commercial paper rate, and they fluctuate accordingly. During 1988, the rate for ConSern loans averaged 11.95 percent.

If an employee receives a ConSern loan and later leaves the company, the loan remains in effect even though the borrower no longer may be connected with a participating company.

During 1990, ConSern plans to provide several enhancements to the existing loan program. It will offer a home-equity loan feature, which could allow tax deductibility of interest charges.

Also planned is loan consolidation. With this option, virtually all loans obtained by a student for attending accredited, nonproprietary schools could be combined into a single loan with one monthly payment. A student who still is in school and needs an additional loan for the final semester can simply add the amount to the consolidation loan.

Loan applications are accepted at any time during the year. The borrower pays a nonrefundable $45 processing fee when applying for the loan. For more information, call 1-800-SOS-LOAN, or write ConSern, 205 Van Buren St., Suite 200, Herndon, Va. 22070. NB

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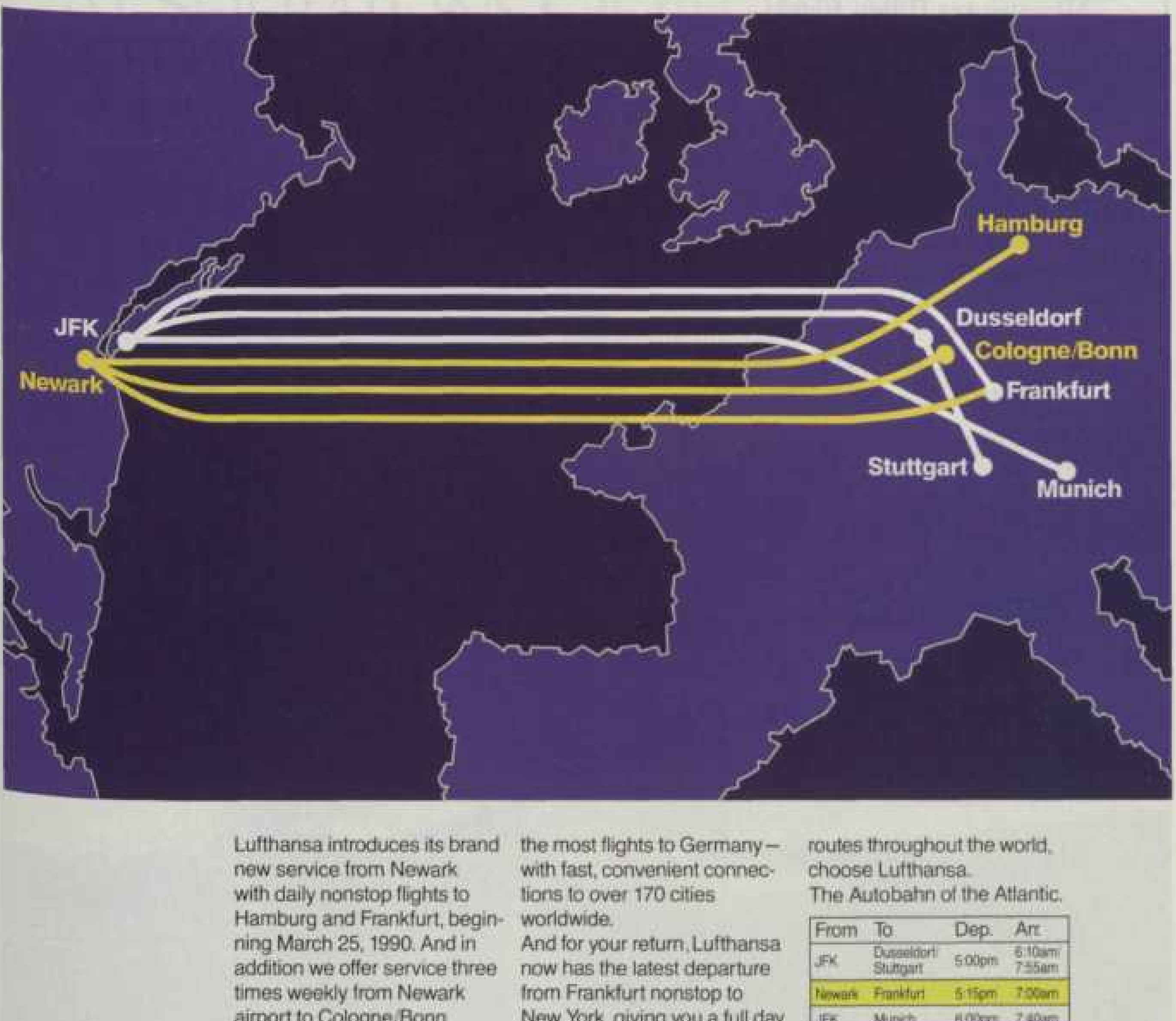

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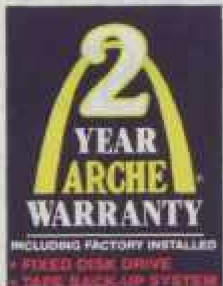

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INTERNATIONAL TRADE

Eastern Europe: A New Frontier

After 40 years of Communist repression, Eastern Europe is emerging as a land of entrepreneurial promise, but don't expect quick profits.

By Albert G. Holzinger

Last spring the leader of Hungary's Communist Party ordered soldiers to tear down the barbed-wire fence separating their country from Austria, thus ending four decades of division between Eastern and Western Europe. That was precisely what U.S. entrepreneur Geza Bankuty had been waiting for.

Within weeks, Bankuty's small packaging-machinery manufacturing company, New England Machinery, became the first wholly American-owned operation in Hungary.

For the time being, New England Machinery will ship most of its production in Hungary to West European customers formerly serviced from the firm's headquarters in Bradenton, Fla.

PHOTO: DENNIS CHAMBERLIN

Boreas International's *Yehiel Fromer and Robert Zawada trade a little bit of everything in Poland.*

But Bankuty did not assume the risks of doing business in politically and economically volatile Eastern Europe just to be an ocean nearer to existing customers. Bankuty's expansion behind the former Iron Curtain reflects great optimism about the long-term economic future of the European continent.

Similarly, it was an upbeat assessment of business prospects in Europe 10 to 15 years from now that prompted veteran trader Yehiel Fromer of New York City to open offices recently in the Polish cities of Warsaw and Lodz.

Fromer, who is president of Boreas International Inc., a trading company, has 21 years of international business experience. He does not foresee quick profits for U.S. firms in Eastern Europe. "There are a lot of difficulties in being there now," he says. "Eastern Europe is just a very, very tough environment today." While it is possible, of course, to strike profitable deals in Eastern Europe, Fromer says, "you should not go [there now] looking for quick bucks."

Fromer's firm imports and exports everything from consumer products to airplane parts and is a partner in many Polish joint ventures, including several fast-food restaurants. He says U.S. firms should consider East Bloc business now only if they can afford to lose some money for the next few years in the hopes of earning much more in a decade or so, "when the environment will be much better."

Beginning with Poland's legalization of the Solidarity trade union in January and culminating with the overthrow of Romanian dictator Nicolae Ceausescu in December, 1989 was a year of sweeping political and economic change across most of Eastern Europe.

The people of Bulgaria, East Germany, and Romania toppled their repressive Communist rulers—Todor Zhivkov, Erich Honecker, and Ceausescu, respectively—and demanded that the party replace them with moderates. The people of Czechoslovakia, Hungary, and Poland voted the Communist Party out of power altogether.

The economic upheaval was almost as great. Most of the region's new governments began adopting free-market solutions to problems created by four decades of central economic planning that had reduced living standards of most Eastern Europeans to levels well below those of most of their Western neighbors.

Bankuty and Fromer are just two of the many U.S. business owners who have seized upon these revolutionary changes as opportunities to expand operations or establish new ventures. These pioneering Americans view Eastern Europe as the new frontier of entrepreneurship, a place to stake out business claims, endure short-term hardships, and reap big profits when the region stabilizes and prospers.

They see in Eastern Europe more than 113 million consumers who have been saving money for years because there were few worthwhile goods to buy in shops selling domestic products and because stores offering imports wanted hard currency.

And these entrepreneurs see minimal competition at this time for their products and services.

Another advantage for American investors is a pool of well-educated prospective employees. Hungarians, for example, achieve high rankings in international assessments of math and science skills. And these workers are available at Eastern Europe's low wage rates. In Poland, for example, Lech Walesa says that before he emerged as head of the Solidarity labor movement, he worked 200 hours a month as an electrician in the Gdansk shipyard for the equivalent of $20.

Finally, American firms consider Eastern Europe an ideal base for exporting to the European Community nations, which will form a single market of 325 million potential consumers when they consolidate into a unified economic bloc at the end of 1992.

The excitement of such entrepreneurs as Bankuty and Fromer about business prospects in Eastern Europe is

Peter Hoffman, a Washington, D.C., free-lance writer who specializes in Eastern European and Soviet trade, contributed to this report.

U.S.-Soviet Entrepreneurship

By Matt Richtel

Steve Thurston was "flabbergasted" when his Soviet partners suggested selling boat sails manufactured by their joint venture for less than they cost to make.

Thurston's reaction was natural for the Western owner of a $1-million-a-year business. Likewise, the suggestion was predictable for Soviet and other managers of centrally planned economies, who for more than 40 years have been taught that production is important and profit is not.

However, things are changing in the Soviet Union. Thanks to Soviet leader Mikhail Gorbachev's policies of *perestroika*, or economic restructuring, and thanks to foreign entrepreneurs such as Steve Thurston, the Soviets are rediscovering free enterprise.

Two years ago, the Soviet legislature sanctioned joint ventures in the Ukraine region between Soviet and foreign business partners. Despite staggering obstacles such as the stultifying Soviet bureaucracy and the inconvertibility of the Soviet currency—the ruble—deals were made.

Steve Thurston's grandfather and father started Thurston Sails—a custom maker of high-performance sails—in the 1940s in Bristol, R.I. They never felt compelled to expand operations in search of more customers than their loyal, primarily East Coast clientele. But when consultant-attorney Eric Fisher proposed a Soviet venture last year, the third-generation Thurston did not hesitate to accept the seemingly daunting challenge.

A few months and a $60,000 investment later, Thurston and his Soviet partners launched a firm called Aquaton in a loft in Odessa to make sails similar to those manufactured by Thurston's 15 U.S. employees.

If your sense of adventure and thoughts of cheap labor and a virtually untapped market of 280 million goods-starved consumers have led you to consider expanding your business to the Soviet Union, the good and bad aspects of Steve Thurston's experiences should be instructive in your decision making.

Thurston entered business in the Soviet Union the way most authorities conclude is sensible for a small-business person—hand in hand with an experienced consultant.

Fisher, who predictably touts the value of consultants, explains why their services are worth the money: "A lot of companies approach the Soviet Union cold, and 80 percent come away frustrated. It's not only the problem of visas, cars, and communications, it's knowing the right people and being able to establish contacts and negotiate deals."

PHOTO: © THURSTON SAILS

A former high-school gym *in Odessa serves as a sail loft for Steve Thurston and his Soviet partners.*

Consultants also can help cut through red tape.

For example, they can register a joint venture with the Soviet Ministry of Finance in Moscow and, in America, verify from the Department of Commerce's Bureau of Export Administration that the proposed venture is in compliance with export-control laws and regulations.

Thurston says the Philadelphia-based Fisher was invaluable in such areas as minimizing risk. For example, Fisher negotiated a bank guarantee that will protect Thurston's investment if Aquaton produces sails of such inferior quality that they cannot be sold in the West.

Thurston also employed Fisher's legal background. The Soviet Union has only a skeleton of corporate law, and thus it is vital that every conceivable step be taken to ensure the enforceability of any joint venture.

In writing a joint-venture document, Fisher says, "We had to establish [painstakingly detailed] bylaws, [even to the point of detailing] what to do if there was no quorum at a board meeting and what determined a majority."

But even with a consultant's help, it's not been all smooth sailing for Thurston.

First, there's the lack of a business culture. Profit is not the only concept alien to today's Soviet employees. Thurston says Aquaton's five employees seemed not to see the relation between having a goal and working toward it. "They just had no idea what we were talking about when we said time equals money," he says.

On the other hand, Thurston was impressed with the resourcefulness of Aquaton's workers. "When they were confronted with a difficult challenge, they went off and met it, although it took some time, which was the most frustrating part."

And finally there is the essential matter of money.

When Thurston's business in Odessa is fully operational and Soviet sail buyers are located, Thurston will end up with a lot of rubles.

Trouble is, despite recent Soviet pronouncements to the contrary, rubles probably won't be worth anything in the West any time soon.

In the short term, Thurston plans to realize profits through overseas sales of Aquaton sails. Thurston hopes to sell some sails in Western Europe.

Also, because of the differential in labor costs, he believes he can sell some Aquaton sails in the U.S. at prices 45 to 50 percent lower than those of his more upscale domestic product. Those lower prices are in line with sails exported to the U.S. by manufacturers in places such as Barbados and Hong Kong that had captured much of the low-end market.

"If you're going over [to the Soviet Union] to make money, then make sure you find some exportable product that you can at least trade abroad to get your money out," says Thurston.

If you still think a Soviet venture may be right for you, the next step is research—lots of it. Following are a few people and organizations to call for information:

Jack Brougher, director of the U.S. Commerce Department's Soviet-affairs division, (202) 377-4655.

U.S.-U.S.S.R. Trade and Economic Council, (212) 644-4550.

Yuri V. Kalashnikov, commercial counselor of the U.S.S.R. Trade Representative, (202) 232-5988.

Yuri Mashkin, president of Amtorg Trading Co., (212) 956-3010.

Matt Richtel is a student at the Columbia University Graduate School of Journalism.

shared by most experts on the region.

Analysts of both the public and private sectors of Eastern Europe concur that long-term opportunities abound for businesses of all types and sizes. However, they warn prospective investors not to underestimate the short-term risks and difficulties inherent in setting up shop in Eastern Europe now and in the near future. "The list of good business prospects is very short now," says Donald J. Hasfurther, director of East-West Trade for the U.S. Chamber of Commerce, who has 15 years of experience assisting Chamber members with operations in Czechoslovakia, Hungary, Poland, and Romania. "While it is very important for potential American investors to carefully assess the needs of individual countries of the region," says Hasfurther, "perhaps the best opportunities in general are in the fields of computer, food-processing, and telecommunications equipment, process controls, machine tools, construction and medical supplies, and tourism."

Small, flexible enterprises, Hasfurther and other experts say, are better suited than larger, more bureaucratic firms to cope with today's Eastern European business climate.

All six of the region's emerging market economies—Poland, Hungary, Czechoslovakia, East Germany, Romania, and Bulgaria—lack at least some of the elements critical to conducting large-scale business as Americans know it. Missing in one nation or the other are structures such as modern communications, transportation capabilities, banking systems and financial markets, or a code of protective commercial laws.

Hungary's telephone system typifies the inadequate nature of Eastern Europe's business infrastructure. Hungary has 6.8 phones per 100 residents, compared with 48.1 in the U.S. When the new Hungarian government contracted with U S West Inc. to improve telephone service there, the Denver-based firm concluded it would be faster and cheaper to establish a cellular network than to upgrade the existing land-based system. Consequently, beginning in 1991, many personal and business phone calls made by the 2.1 million residents of the capital city of Budapest will be on cellular telephones.

But while Westerners can establish a workable phone system in Eastern Europe in a year or two, it will take much longer to re-establish a business culture, which has been all but eradicated under 40 years of communism. "I don't think the business mentality can be improved for a generation," says New England Machinery's Bankuty.

Trade with Eastern Europe also requires that the governments establish an internationally acceptable medium of exchange. With the exception of Poland, whose economic-reform process is the most advanced among countries in the region, Eastern European governments assign artificial values to their currencies. Czechoslovakia, for example, sets a business exchange rate of 17 koruny to the U.S. dollar, while the market rate is closer to 40 koruny to the dollar. Some foreign business people have negotiated payment for Eastern European sales in convertible currency such as the dollar or the West German mark. However, the vast majority of others can earn so-called hard currency from Eastern European operations in only three indirect ways.

The first is exporting goods produced in Eastern European countries to the

The Eastern European Economies

1988	Bulgaria	Czech.	E. Ger.	Hungary	Poland	Romania
Population (Millions)	9.0	15.7	16.6	10.6	38.1	23.1
Gross National Product ($U.S. Billions)	67.6	158.2	207.2	91.8	276.3	151.3
Real Economic Growth Rate (Percent Of Increase)	1.8	1.4	1.8	1.1	2.1	2.1
Trade And Services Balance ($U.S. Billions)	-0.9	-0.3	0.6	-0.6	-0.6	1.6
Foreign Debt ($U.S. Billions)	6.4	5.6	18.5	16.8	39.1	1.9
Hard-Currency Reserves ($U.S. Billions; Gold Excluded)	1.1	1.7	8.0	1.5	2.1	1.3

Sources: U.S. Central Intelligence Agency; [illegible]

CHART: SAM WARD

Help For U.S. Firms On Eastern Europe

All the details you will need to determine whether it is feasible for your firm to do business in the Soviet Union or in the fledgling market-oriented economies of Eastern Europe will be available at a forthcoming two-day conference in Washington, D.C. The event, April 11 and 12, is a collaborative effort of the U.S. Department of Commerce and the U.S. Chamber of Commerce.

Sessions on the first day of the conference are on general topics of interest to prospective U.S. traders and investors in any of the Eastern European countries. Topics include U.S. government trade and investment programs and export-import restrictions, public- and private-sector export and investment financing, and private-sector regional economic-development efforts.

The second day is devoted to practical information on doing business in the Soviet Union, Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, and Romania.

For information or registration, call Peter Wingate at (202) 463-5474.

The conference is a kickoff event of the U.S. Chamber's recently established East European Trade and Technical Assistance Center (EETTAC). The center is being formed with two objectives, says William T. Archey, the Chamber's vice president for international policy.

One is to provide the Soviet and Eastern European governments and other entities with expert technical assistance in developing programs to sustain market-economic reforms now in place and to institute new ones. The other objective is to assist U.S. firms in gaining access to regional markets and in identifying investment opportunities, particularly in sectors that are critical to economic growth in Eastern Europe.

Archey says EETTAC services in support of the latter objective include:

- Providing access to materials essential for business transactions, such as analyses of business conditions, investment laws, and financing options.
- Sponsoring trade and investment missions.
- Conducting seminars on doing business in the region, such as the conference on April 11 and 12, with participants to include public- and private-sector authorities and business people with experience in Eastern Europe.
- Lobbying the U.S. government to ease restrictions on trade and investment in Eastern Europe, including controls on technology transfer.

U.S. or elsewhere in the West and selling them for hard currency. The second is trading Eastern European goods locally for raw materials or high-quality finished goods, which in turn can be exported and sold outside Eastern Europe. The third is contracting with a barter house to exchange goods for those of others with whom it deals.

Lack of hard currency forces him to "leave out a lot of business possibilities" and complicates others, says Boreas International's Fromer. "There's no simple transaction" in Eastern Europe, he says.

Sadly, many U.S. business people who can surmount all of these formidable hurdles will trip on others erected by their own government.

U.S. export-control practices have been by far the most frequently cited of these obstacles. Until the past few weeks, the U.S. has been far more reluctant than its trading partners to relax export controls on computer and telecommunications equipment and other high-technology products that appeal to Eastern Europe's new governments looking to modernize their economies.

The Coordinating Committee on Multilateral Export Controls, or COCOM, a Paris-based international oversight organization, polices sales—to Communist nations by the U.S. or its allies—of goods with actual or potential military applications. At a meeting late last year, the U.S. was the only one of 17 COCOM members to oppose the sale of advanced technology in the Eastern European marketplace. The Bush administration eased its stance somewhat just prior to a meeting of COCOM members in February.

At that meeting, representatives of the U.S. government announced that the administration had undertaken a comprehensive analysis of its export-control policies' compatibility with the new military and political situation in Eastern Europe and the Soviet Union. The analysis is scheduled for completion prior to the COCOM meeting scheduled in June.

Many U.S. business people with experience in East and West European trade believe America's security interests would have been damaged in the long run by the administration's continued reluctance to loosen export controls in response to the political changes in formerly Communist nations. For example, John J. Murphy, president and chief executive officer of Dresser Industries, a diverse multinational company, recently told the House Ways and Means Committee: "If the U.S. fails to exercise leadership [in greatly relaxing COCOM restrictions], it will encourage unilateral actions by individual COCOM members, undermining both U.S. security and commercial interests."

Added Murphy: "If the U.S. really wants to help [the Eastern European] countries develop into viable market economies, it also must make several other legislative and regulatory changes." Among the needed changes enumerated by Murphy and other business witnesses were:

- Granting normal tariff status—known as most-favored-nation status (MFN)—to nations throughout the region. Imports into the U.S. from MFN countries are subject to much lower duties than imports from other nations. Currently, Hungary and Poland are the only Eastern European nations with MFN status.
- Expanding operations of the U.S. Export-Import Bank (Eximbank) beyond Hungary and Poland, where it is operating currently, to the remainder of Eastern Europe. Big-ticket sales in foreign countries often are contingent on the seller's ability to obtain cut-rate financing for the buyer from institutions such as Eximbank.
- Authorizing the U.S. Overseas Private Investment Corporation (OPIC) to insure U.S. firms against nonbusiness losses incurred anywhere in Eastern Europe. Currently, OPIC coverage is available only in Hungary and Poland.

"At this point in time, the playing field is severely tilted in favor of Western Europe ... but it's not too late," Murphy concluded. "In Eastern Europe ... American products are still regarded as the finest in the world."

Subsequently, Deputy Secretary of

PHOTO: ©DENNIS CHAMBERLIN

Polish consumers *line up to spend money they saved when there were few worthwhile domestic goods.*

Information On Eastern Europe

Many private- and public-sector sources offer information on trade and investment opportunities in the fledgling market economies of Eastern Europe.

Members of the U.S. Chamber of Commerce can learn the pros and cons of doing business in most of the region from the Chamber's new East European Trade and Technical Assistance Center (EETTAC). You can reach the center's staff at (202) 463-5482.

The U.S. Department of Commerce's new Eastern Europe Business Information Center (EEBIC) can provide business people with basic information on opportunities in Eastern Europe. For information, call (202) 377-2645.

A wealth of books and periodicals on Eastern European trade can be obtained.

A new magazine, *BLOC*, a bimonthly business journal on the Soviet Union and Eastern Europe, tracks business-related developments in the region and names many business contacts. To subscribe, call (212) 966-0655.

Other sources of information about the Eastern European nations include the following:

Overseas Private Investment Corp. Legal: Linda Wells, (202) 457-7026; Finance: Elizabeth Keck, Susan Goeransson, John Pazartzis, (202) 457-7200.

U.S. Department of Commerce. Jay Burgess, (202) 377-2645.

U.S. Department of Treasury. Harvey Shapiro, (202) 566-5637.

Sources of information about specific nations of Eastern Europe include the following:

Bulgaria

Office of the Commercial Counselor to the Bulgarian Embassy. Dimiter Karamfilov, (212) 935-4646.

Bulgarian Chamber of Commerce and Industry. 11-A Stamboliiski Blvd., Sofia, Bulgaria; 87-74-79.

U.S. Department of Commerce. Shelly Galbraith, (202) 377-2645.

U.S. Department of State. Frederick Becker, (202) 647-3052.

State Lawrence S. Eagleburger told a business audience that all of the changes above would be considered under a policy of "differentiation ... based on the progress of [Eastern European] countries in moving toward democratic societies with market-oriented economies."

Eagleburger, who is President Bush's coordinator of U.S. assistance to Eastern Europe, said progress would be based on four criteria "that are very much in our mutual interests." Those criteria are political pluralism based on free and fair elections, economic reform based on the emergence of a market-oriented economy, enhanced respect for internationally recognized human rights, and willingness to build a friendly relationship with the U.S.

Prospects that all countries of the region will meet these criteria in the reasonably near future are good, Eagleburger implied. "Poland and Hungary have led the way on the path of reform and have benefited accordingly," he said. "Czechoslovakia is clearly determined to move rapidly to institutionalize political and economic reform ... Other nations are to varying degrees preparing the ground" for reforms.

Despite the problems now inherent in doing business in the Eastern European marketplace, many U.S. firms are optimistic. New England Machinery and Boreas International are but two of scores of U.S. firms of all sizes doing business there successfully.

When President Bush and Secretary of Commerce Robert Mosbacher visited Eastern Europe last year, for example, a briefing book prepared by the staff of the U.S. ambassador to Hungary at the time, R. Mark Palmer, detailed 23 recent U.S. private-sector initiatives in that country alone. Some of them were upgrades of ongoing operations, such as construction of a new distribution center by Levi Strauss & Co. Others were diverse new enterprises. For example an old Hungarian brand of digestive liqueur, Unicum, was relaunched when former owner Peter Zwack was invited back to take over his old company, which the Hungarian government had expropriated in 1948. What's more, the U.S. Chamber of Commerce is receiving almost 100 requests a day for information about Eastern European trade opportunities, says William T. Archey, the business organization's vice president for international policy. About 65 percent of the requests are from small businesses, he says.

In considering whether you should join these firms in exploring Eastern European opportunities, analysts say, you should keep in mind that nations of the region are very different. "The best choice, if any, depends on what you are looking for," says Jan Vanous, the Czech-born research director of PlanEcon Inc., a Washington-based consulting firm specializing in Soviet and Eastern European economic issues. Lean toward the country where businesses similar to yours are doing well, he advises. That country's work force and business infrastructure probably will afford you the best chance for success.

Also important, says Vanous, is the length of time you can afford to wait to recoup your investment and turn a profit. If your time frame is relatively short, give strongest consideration to Hungary or Poland, where the pace of market reforms is fastest. If you can wait for many years, Bulgaria and Romania, where few reforms are now in place, are not out of the question.

PlanEcon has ranked the relative attractiveness of each Eastern European country to prospective foreign investors. The analysis, Vanous stresses, is general and should be used only to complement customized market research. The ranking is based on 15 factors that include economic-reform prospects, inflation, education, work ethic, political stability, and democratic tradition. Composite "grades" are: Czechoslovakia and East Germany, B; Hungary, B-minus; Poland, C-plus; Romania, C-minus; and Bulgaria, D-plus.

The overwhelming majority of U.S. firms undoubtedly will decide to be conservative and stay out of volatile Eastern Europe entirely. "The problem is, companies can't make money" with this philosophy, says Vanous. "Yes, there is high risk in Eastern Europe, but also potentially high return." NB

Czechoslovakia

Office of the Commercial Counselor to the Czechoslovak Embassy. Richard Hlavaty, (212) 532-2662.

Czechoslovak Chamber of Commerce and Industry. 38 Argentinska St., 170 05 Prague, Czechoslovakia; 37-08-61.

U.S. Department of Commerce. Shelly Galbraith, (202) 377-2645.

U.S. Department of State. Cameron Munter, (202) 647-3052.

East Germany

Office of the Commercial Counselor to the East German Embassy. Heinz-Peter Woida, (212) 490-8600.

German Democratic Republic Chamber of Commerce. Schonholzerstr. 10/11, DDR-1100 Berlin; 4-82-20.

U.S. Department of Commerce. Shelly Galbraith, (202) 377-2645.

Hungary

Office of the Commercial Counselor to the Hungarian Embassy. Jozsef Heiszig, (212) 752-3060.

Hungarian Chamber of Commerce and Industry. Eva Horvath, P.O. Box 106, Budapest 1389, Hungary; 011-36-1.

U.S. Department of Commerce. Russell Johnson, (202) 377-2645.

U.S. Department of State. Gene Schultz, (202) 647-3052.

Poland

Office of the Commercial Counselor to the Polish Embassy. Jerzy Kapuscinski, (212) 370-5300.

Polish Chamber of Foreign Trade. P.O. Box 361, 00-074, Warsaw, Poland; 26-02-21.

U.S. Department of Commerce. Will Winter, (202) 377-2645.

U.S. Department of State. Chris Hill, (202) 647-3052.

Romania

Economic Counselor's Office to the Romanian Embassy. Zamfir Moise, (212) 682-9120.

Chamber of Commerce of the Republic of Romania. 22 Nicolae Balescu B-dul, Bucharest, Romania; 139883.

U.S. Department of Commerce. Mary Moskalic, (202) 377-2645.

U.S. Department of State. Frederick Becker, (202) 647-3052.

To order reprints of this article, see Page 68.

FINANCIAL MANAGEMENT

Business Returns On PCs

Personal-computer tax programs can cut the time it takes to prepare your company's IRS forms.

By Laura Lou Meadows

One of the little-noticed but more embarrassing admissions of the Internal Revenue Service appears just inside the instructions for the corporate and partnership tax returns. It is the official estimated average time it will take you to learn about the applicable law, prepare the tax returns, and pull copies together to send to Uncle Sam.

The IRS estimate for the corporate Form 1120 or the partnership Form 1065 is 120 to 130 hours—or about three workweeks plus overtime! Figure even more if a few other schedules are required. Mind you, this calculation is after the IRS assumes you've spent 60 to 100 hours keeping the backup records for the federal tax return in apple-pie order.

Of course, major corporations are different. Their tax departments, 10 to 50 accountants strong, can take months to prepare their annual six-inch-thick federal tax returns. Even then, the return typically has lots of pages that say "supporting details on file at the company offices."

If you are lucky enough to be your small firm's chief financial officer, treasurer, controller, accounting department head, full-charge bookkeeper, spreadsheet jockey, and principal tax guru all rolled into one, then paying out $180 to $1,000 for tax-return software can be your lifeline to sanity.

For the midsized or small business that tries not to be completely at the mercy of its outside CPA or auditors, personal-computer tax programs offer a way to cut down the time to prepare a tax return or to check the results of the outside professionals.

If you are the CPA who has been doing your clients' 1120s and 1065s manually or using a service bureau, one of these programs that run on an IBM or compatible PC may let you computerize and enjoy the control and quick turnaround time of an in-house system.

We took a look at three programs for preparing federal corporate and partnership tax returns to see how well they help in cutting down the IRS's estimated time.

Unlike the individual tax programs that have been doing Form 1040s for a number of years, the corporate and partnership programs for PCs have not had as many shakedown seasons or as many users letting the publishers know what they think.

All three of the publishers whose programs we've reviewed also put out fine professional 1040 programs, which sell thousands of copies that are used to prepare millions of personal returns. The 1120 and 1065 programs sell hundreds of copies and may be used to prepare only one or a few corporate or partnership returns each.

Accordingly, business-tax-return software for PCs does not yet have all the convenient hand-holding features of 1040 programs. The business programs we looked at have minimal or no substantive tax instructions to be summoned up in a window when the IRS form flummoxes you.

The help keys will give you software-operating instructions and sometimes cross references, but they seldom give expert advice on translating arcane IRS concepts. These programs assume the user knows the tax terrain.

The programs contain eight to 15 IRS subsidiary forms and a healthy batch of worksheets to support them. They all include such professional features as batch processing and printing and client letters with filing instructions and billing.

CPAid *encourages an orderly records arrangement.*

Two of the publishers, ChipSoft and TenKey, each put out a single program that includes both the Form 1120 for the traditional corporation and the Form 1120S for an S corporation. The third publisher, CPAid, has separate programs—and separate fees—for the Form 1120 and Form 1120S. They all publish a partnership program that does the Form 1065 partnership return and related schedules.

CPAid

CPAid serves primarily professional users. The program can be installed on a network as well as stand-alone PCs. Several well-developed features fatten each program to over four megabytes of hard-disk space. I discovered one useful feature while putting in a sample scenario. I tried to leave the Schedule L balance sheet with fewer assets than liabilities plus shareholder's equity. CPAid beeped, and a midscreen window opened to admonish me that things were in a precarious state of imbalance.

Unwelcome news, perhaps, but I thought, "Thanks, I needed that."

When I came to an entry consisting of the total of many items, a touch of the F3 key opened an overflow window where I could list the elements. Another press of F3 sorted the list into alphabetical order, which is invaluable when you need to check a long tally against a jumbled source list. It is also an orderly way to arrange records.

The calculator function is the simplest I've seen. Put the cursor on the entry field, type in a number, then press the symbol for the operation you want, say, the asterisk (*) to multiply. Then type in the next number and press Enter, which functions as the equals key. The product of the two numbers

Laura Lou Meadows, now a tax lawyer practicing in New York City, was formerly tax director of a $6-billion corporation.

you've just multiplied is in the entry field. No bothering with a little picture of a calculator.

At a number of decision points in the program, the F4 key gave me a window showing the available choices. It was like the assurance of a multiple-choice test in school. I may not be sure about the answer, but I have a fighting chance when it's right in front of me.

Throughout the CPAid programs, I could often invoke cross references that tell me where numbers in a calculated cell come from or where the program will carry my entries. For the professional who wants to turn over data entry to a data processor without a tax background, CPAid can turn on its "field entry" mode, analogous to using service-bureau forms. Then, the fingers at the keyboard match up the block numbers of a handwritten entry with the block numbers on the screen. When all the entries are in, the diagnostic feature lists a brief page of key totals. I would have preferred a more perceptive list of what things my fundamental circumstances required that I had not completed.

Most arithmetic operations within a single screen are instantaneous. The few done on command were completed in 10 seconds or less on my 286 IBM-compatible computer. Of course, like all full-featured programs, the more it does, the steeper the learning curve. Even the basics are more complicated when there are many bells and whistles.

CPAid, C Corporation 1120 program, S Corporation 1120S program, and Partnership 1065 program: $500 for one program, $750 for two, and $995 for all three programs. Laser forms: $125 for one, $225 for two, and $300 for all three. Requires 512K IBM or compatible, DOS 3.0 or higher, hard disk. CPAid Inc., 1061 Fraternity Circle, Kent, Ohio 44240; (216) 678-9015. For replicas of all tax forms with laser driver, Center Piece Accounting & Tax Font Cartridge, $239.

TurboTax

ChipSoft's TurboTax 1120-1120S and TurboTax 1065 operate much like its excellent best-selling personal 1040 program. Most information is entered directly onto screens resembling the IRS forms. The F1 help screens will offer a phrase or a few sentences of guidance for each form or schedule. Where the screen shows a protected cell, the F7 cross reference tells you where TurboTax wants the number entered. Then the screen will show you which lines on a K-1 have been computed as a special allocation so you can easily keep track.

If you try to enter data that is outside the allowable range of statutory limits on tax items, the program gives you a message that the field should not exceed a stated value.

For such things as shareholder or partner Schedule K-1 allocations, there are worksheets, some with their own menus, that operate smoothly and automatically for proportional or special allocations.

The TurboTax depreciation worksheet is one of the most comprehensive and easy-to-use of the corporate and partnership programs. It puts a series of questions in a window, one at a time, then posts the answers in a second window where you can tab back to make a change. TurboTax calculates the depreciation on the worksheet, carries it to the proper schedule, and with a touch of Alt-Z it shows a page with the asset's life history.

PHOTO: CHRISTOPHER McGRANAHAN

TaxShop's simplicity *may mean more work for you.*

The client-billing feature works in either of two ways. You can fill in dollar amounts for each form on a list of all the forms and schedules that the program prepares and have them added up in the client letter. In the second option, a clock in the program will tote up the time spent working on this client's file, multiply it by the hourly rate you've prescribed for your services, and put the total into the client letter.

I must confess I miss the complete IRS line-by-line instructions and the fail-safe diagnostic feature listing omissions that are two of the most valuable features in the personal TurboTax program.

Still I find the TurboTax manuals for the 1120S-1120 and the 1065 programs notable for being that rare thing: computer manuals so complete, clearly written, and well-organized that I'm seldom left stranded or puzzled.

TurboTax, ProSeries 1120-1120S corporate program, $395, laser forms, $200; California corporate program, $295, laser forms, $100. TurboTax ProSeries 1065 partnership program, $295, laser forms, $100; California partnership program, $250, laser forms, $100. Both the partnership and corporate programs are available on 360K 5 1/4" or 720K 3 1/2" disks. Requires DOS 2.0-3.2 and 512K or DOS 3.3 and 64 IBM PC or compatible, and a hard drive. ChipSoft Inc., 5045 Shoreham Place, San Diego, Calif. 92122; (619) 453-8722. For replicas of all tax forms with laser driver, Center Piece Accounting & Tax Font Cartridge, $239, or Hewlett Packard Forms, Etc. Font Cartridge, $195.

TaxShop

The striking thing about the TaxShop 1120-1120S and 1065 programs is that they raise color coding to a high art. Data entry is a pleasure with the superb screen conventions that lead you along and convey a great deal of information without a feeling of overwhelming clutter.

The programs recalculate everything instantaneously and then save everything each time you move from field to field or screen to screen. This eliminates the possibility of losing data or becoming confused if you forget to save or neglect to press a recalculation key.

This feature is a little Draconian if you want to test different scenarios or experiment and then return to the original.

You might deal with this by copying successive variations of the file. They can then be compared, and you can choose the one that works best. Although cumbersome, it's a worthwhile trade-off for the security.

The TaxShop client letter is clever enough to distinguish between a return with a balance due and one with a refund and pick out the proper paragraph for each return.

In terms of advice, TaxShop offers clear, useful topic screens about program operations but has relatively little on the substance of the tax rules. In the course of keeping things simple, TaxShop includes the depreciation form but leaves you to figure out each asset's depreciation and enter the right number.

If your business has already put its depreciable properties into a fixed asset or spreadsheet program to calculate the

year's deduction, there may be no need for you to have a tax-return program duplicate the process.

On the other hand, the TaxShop publisher is sufficiently confident to offer a 15-day money-back guarantee if you are dissatisfied with the program.

Tax Shop 1120-1120S corporate program, $199, laser forms, $119; California or New York state corporate program, $119 each, laser forms, $59; Tax Shop 1065 partnership program, $179, laser forms, $59. Both corporate and partnership programs are available on 360K 5 1/4" or 720K 3 1/2" disks. Requires 512K IBM PC or compatible, DOS 2.1 or higher, 512K, and a hard drive. TenKey Publishing Inc., 7650 Municipal Drive, Orlando, Fla. 32819-9823; 1-800-448-1415. For replicas of all tax forms with laser driver, Center Piece Accounting & Tax Font Cartridge, $239.

The bottom line is that all of these programs handle the major tasks inherent in the corporate and partnership returns, easily computing such requirements as dividend-received deductions and K-1 allocations.

CPAid has more precautions built in but may take longer to learn. TaxShop is simple and quick but may not offer the help or depth you need. TurboTax is straightforward in operation with fine detail.

The TurboTax and TaxShop programs each take less than one megabyte of hard-disk space and do a few more official forms than CPAid, particularly in the tax-credit area.

Unfortunately, few state corporate and partnership programs are available: CPAid advertises New York programs, TurboTax lists California programs, and TaxShop tells us they have only a California corporate program this year.

These offerings—CPAid, TurboTax, and TaxShop—are just three of the many fine programs available. More than 30 publishers sell programs that run on IBM and compatible PCs to do the federal Forms 1120 and 1065. Several others, such as Lacerte, Pencil Pushers, and Prentice Hall, claim more than a thousand users for their corporate or partnership programs. For Macintosh mavens, there is SoftView Inc.'s TaxView Pro 1120, 1120S, and 1065.

Unfortunately, few of these software publishers have yet developed state modules. Like CPAid, TurboTax, and TaxShop, those that do usually offer only programs for California, New York, or the state where they are located. Perhaps it's because a fair number of states require additional information such as sales, payroll, and property values within the state, and have more varied ways of measuring taxable income. Before you plunk down your money for the federal program, see if your choice of publisher puts out a companion program for your state's corporate or partnership tax returns.

Several tax-program publishers have fixed-asset programs that interface to transfer depreciation figures to their own tax programs. Unlike some mainframe tax-return programs, often customized for major corporations, the PC tax-return programs generally are not able to read the results of other computerized business accounting programs directly. That software milestone is likely to take several more years of intense developmental work.

If you are a professional accountant whose clients include individuals, corporations, and partnerships, one way you can accelerate your proficiency is to choose all your computer tax-return software from the same publisher. The screen design, key functions, entry conventions, and other features tend to be identical or analogous from one program to the next. So after you learn the first program, you have a big head start on the rest.

Even better, if you are happy with the choice you make the first year, get the next year's update from the same publisher. Many programs have a transfer feature through which the updated program can easily copy basic data and carry over amounts to the next year's client files.

If you are knowledgeable enough to tackle a business tax return at all and have some familiarity with a few computer applications, you should be able to use one of these programs quite successfully. Certainly, the computer tax programs help enormously with the arithmetic and typing.

If you have a laser printer, plug in a tax-font cartridge and buy the laser-form software along with the tax-return program. You can then print sleek, precise replicas of the government forms with your tax data in place.

Even if you take several hours or a day to learn your way around one of these programs, you're likely to pare down the IRS's average estimated return-preparation time by a third or even a half.

But keep your eye on the caveats. These computer programs are no substitute for tax knowledge. They are tools, not teachers. NB

Family Business

A hunger for the figures behind the facts, a look at the positive side of management turnover, and solutions for filling a company's power vacuum.

COMMENT

We Could Use A Few Good Numbers

By Sharon Nelton

This is my wish: that someone would come up with one one-hundredth of the amount of statistics on family businesses that we now have on baseball.

That doesn't sound like much, but, given the amount of numbers available on sports, it's probably more than enough to tell us some of the things it's time we knew.

And what don't we know?

Well, we don't really know how many family firms there are in this country. There are a lot, to be sure, but just how many is anybody's guess.

A figure frequently used in scholarly publications is that over 95 percent of all businesses in the United States are family-owned. So imagine my surprise a few months ago when a family-business expert from academia sent in a manuscript that said, "Recent media reports claim that from 75 to 95 percent of U.S. companies are family businesses generating from 40 to 60 percent of the gross national product."

PHOTO: TING CHAO

Nelton: *"We don't really know how many family firms there are."*

"Hey, wait a minute," I said, defending my profession. "We don't claim anything. We just report what guys like you tell us."

One thing that seems fairly certain is that 35 percent of the "*Fortune* 500" companies are family-controlled. That's a figure based on research by John L. Ward, a *Nation's Business* columnist and professor of private enterprise at Loyola University of Chicago.

But the only other solid number I have seen on this subject comes from Oregon, where a recently released survey shows that 76 percent of the state's small companies—those that have fewer than 50 employees—are "exclusively" family-owned, and an additional 19 percent are privately owned and include nonfamily owners.

I'd like to know if that number holds up nationally.

What else would I like to know?

I'd like figures on how many women are the CEOs of family firms. Then we could begin tracking the rise of women in family businesses.

I'd like to know how many husband-and-wife teams own businesses. The government tracks the sole proprietorships that are owned by couples (510,188 in 1987), but it doesn't track partnerships and corporations. Add those in, and you'll increase the number substantially.

I'd like divorce statistics on these couples. My guess is that there are far fewer divorces among entrepreneurial couples than most of us imagine.

I'd like to know how many black-owned businesses are family-owned, and if they are being passed on successfully to the next generation. Handing businesses down, it seems to me, is the best way to build wealth in the black community, and if it's not happening, we need to know that so we can do what needs to be done to encourage the process along.

I'd like to know about the annual revenues of family businesses and how many people they employ, so we could get a firm grip on how much family businesses contribute to our economy. Maybe family firms then could get the political clout to ward off disasters such as the enactment of Section 2036(c) of the Internal Revenue Code, which threatens the survival of many family firms.

I'd like to know if . . . well, I've run out of space, and I've only begun my list.

What would you like to know?

PLANNING

Employee Turnover Has Its Good Side

By Craig E. Aronoff and John L. Ward

Jim O., a 56-year-old business owner, learned that his 45-year-old administrative vice president would be leaving. He would become executive vice president at a similar firm owned by one of Jim's good friends in another state. Jim congratulated his employee on his advancement and called his friend to tell him that he had hired a good person.

Charlie L. faced a situation similar to Jim's, but when he found out, he lectured his departing operations manager about loyalty. He offered a 10-percent raise and promised the employee that if he would stay, a higher position would open up.

What Jim realizes—and what Charlie does not—is that turnover can be good for a family business.

Most family-business owners are more like Charlie. Since starting their businesses, they have struggled and suffered with a shortage of good people. When key employees leave, family members personally have to pick up the slack, returning to duties they thought they had put behind them. There's a feeling of going backward.

As a business strengthens, it can better endure turnover. But why not avoid turnover altogether? What could be more valuable to a family business than its employees' commitment? Overpaying long-term people a little to reward their loyalty is a common practice in family businesses because it saves the agony and cost of replacing them. But there is a hidden danger.

As a business matures, its growth rate slows. Time, employee loyalty, and retention inevitably conspire to reduce opportunities to add new people.

When Charlie's business was young and growing, he built a team of like-minded folks seeking opportunities. As the business matured, the managers aged together. With the company's executives all about the same age, how much room is there for younger people, including Charlie's children, to be promoted? With mature executives rein-

Mark Your Calendar

May 4-6, Cassopolis, Mich.

"The Family Business Experience," a roundtable program for CEOs, presidents, and family members. Contact the Center for Entrepreneurial Management, 180 Varick St., Penthouse, New York, N.Y. 10014-4606; (212) 633-0060.

May 14-20, Poipu, Kauai, Hawaii

"Stress Management and Relationship Skills," a conference for couples in business, sponsored by the National Association of Entrepreneurial Couples and *Nation's Business*. Contact NAEC at 2360 N.W. Glison, #1, Portland, Ore. 97210; (503) 227-1532.

May 29-June 1, Philadelphia

"Chief Executive and Senior Officers of Family-Held Businesses," a seminar for owners and managers of family firms. Contact the Division of Family Business Studies, Sol C. Snider Entrepreneurial Center, The Wharton School, University of Pennsylvania, 426 Vance Hall, 3733 Spruce St., Philadelphia, Pa. 19104; (215) 898-4470.

June

"Your Family-Owned Business: How To Build It, Manage It, Make It Last," a seminar sponsored by *Nation's Business*, Laventhol & Horwath, and Shearson Lehman Hutton, is offered three times: Rye Brook, N.Y., June 3-5; St. Charles, Ill., June 8-10; San Diego, June 21-23. Featured speaker is Peter Davis, director of family-business studies at the Wharton School of the University of Pennsylvania. For information, call 1-800-521-1818.

June 13-15, Cleveland

"Managing Succession Without Conflict in the Family-Owned Business," a seminar for business owners, their spouses, successors, and key managers. It is conducted by nationally known family-business consultant Léon A. Danco. Contact the Center for Family Business, P.O. Box 24268, Cleveland, Ohio 44124; (216) 442-0800.

PLANNING

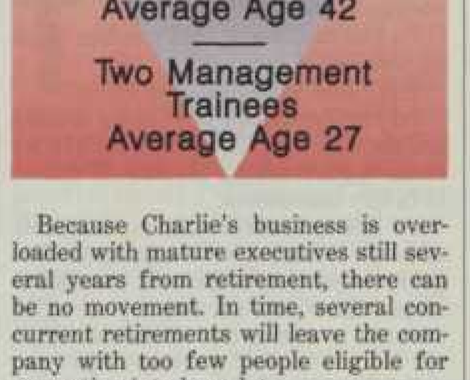
forcing each other's views, how receptive might they be to ideas or changes?

Our experience is that this situation results in organizational stagnation. To see whether your business might suffer similar problems, make a drawing of your organization chart as a pyramid of ages. Charlie's business might look like this:

Because Charlie's business is overloaded with mature executives still several years from retirement, there can be no movement. In time, several concurrent retirements will leave the company with too few people eligible for promotion into key slots.

Charlie will wonder what happened to initiative, ideas, and energy. He'll be even more upset if his son is the next employee who gets frustrated and leaves. That is the price of too little turnover.

Now let's take a look at Jim's organizational age profile. It looks like this:



While Jim's company is run by mature top management, several younger people are being tested for potential. As senior executives retire, several candidates are available from within. New ideas are in good supply, and the vast majority of the managers don't have a vested interest in the status quo.

There's another advantage. Jim has two children among the six in the lowest age bracket. They have a peer group to work with and to be compared with. They have older, intervening managers with whom they can sharpen their skills. They can experience orderly development and follow a career path to the top of the organization.

How can your company be more like Jim's? The answer is turnover—planned, accepted turnover.

Start with the 42-year-old middle managers. Assess them not on their past contributions but on their clear potential for top management. If that potential is lacking, now is the time for them to find other jobs. As the years pass, finding a new position becomes more difficult. They are likely to stagnate—and your business will too.

A company can't expect to keep all of its younger managers. Consequently, more are needed than there are positions above them to fill.

Obviously, you will seek only very good people. Some will leave for better opportunities. Therefore, there should be turnover of good people.

Our ideal is a nice, evolutionary progression. Several good younger people, including your children, are hired, and the best ones move up as middle managers are promoted to executive positions that become vacant through retirement. A good organization is prepared for the future, and the family successor has a good team in place when he or she takes over.

Developing executive talent requires vision, energy, and courage. The organizational pyramid has to be imagined many years ahead. Recruiting, performance reviews, and coaching have to be taken seriously. Since loyalty and stability are highly valued in family businesses, it takes courage to implement programs that shake up people (as turnover inevitably does), even in the best future interests of the company and its employees.

Turnover of good people can be a good thing. Obviously, you want to keep the very best for yourself. But you can't recognize the best unless you have several candidates to compare, candidates who have had ample opportunity to grow in your organization.

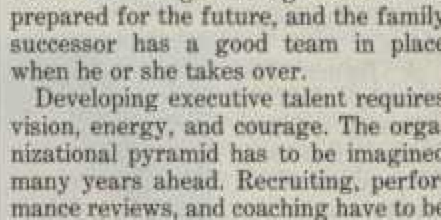


PHOTO: T. MICHAEL KEZA

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Chair of Private Enterprise at Kennesaw State College, in Marietta, Ga. Both are family-business consultants.

CASE STUDY

Caught In A Power Vacuum

ILLUSTRATION: JIM STARR

"We can't make any strategic decisions," laments Tom Thompson Jr. Tom, 40 years old, has been president of Transco, a transportation-services company, since his father, the founder, retired eight years ago.

Tom shares management with one brother and three sisters, who, like him, have worked in the business for about 15 years.

Prior to retiring, Tom Sr. established a management-succession plan, grooming each child for an appropriate management role.

Tom Sr. also relinquished control of Transco, a general partnership, but did not directly transfer ownership of the company to any of his children.

Instead, Transco is now owned by several long-term trusts and a family holding company, which are neither willing nor able to assume the duties of a general partner. The trusts are controlled by in-laws who have no expertise in running Transco.

And although Tom Sr. dominates the board of the holding company, he devotes his interests to other family assets and refrains from involvement in Transco.

While Tom Jr. and his siblings sit on the holding company's board, they feel intimidated by their father and have simply pursued the objectives he set before he retired.

Although he is Transco's president, Tom Jr. does not feel fully authorized to make strategic decisions that involve risking significant assets of the business.

His siblings are not comfortable assuming authority beyond their respective management duties.

Simply put, Transco is operating without direction. What can be done to provide the company with the leadership it needs?

PHOTO: ©ALAN DOROW

Sort Out The Confusion

Richard Beckhard, director of Richard Beckhard Associates, a New York City organization consulting firm:

Although the trusts and the family holding company are "owners" of the Transco assets, neither is an appropriate body to manage the business of Transco. That responsibility has been entrusted to a management team—Tom and his siblings. However, the owners have not set up the governance process that will allow management to manage.

They can correct this confusing state of affairs by creating a business board. It would govern Transco, while the trustees and holding-company board would continue to manage the family's other assets.

The asset owners would have one or two representatives on the board. The chief executive officer—presumably Tom Jr.—would be on the board. But a majority of the directors would be independent outsiders (an attorney, a banker, etc.).

The by-laws would define which issues the votes of the family representatives will control and issues on which each director has one vote. For example, the family votes might prevail in hiring and firing the CEO, while each director would have a vote on the employment of other executives.

The business board would have a "contract" with the CEO defining relationships and the board's oversight responsibilities. The trusts and holding company can retain certain "reserved powers" (such as veto power on selling the business or paying dividends). But the chief executive must have the authority to make strategic decisions.

As to performance, Tom's siblings should be treated the same as nonfamily employees. Their succession steps—for example, a promotion from sales manager to vice president—should be determined by management, not by the family trusts and holding company.

In sum, a separation of ownership and management is an imperative for the profitable survival of Transco.

PHOTO: ©RICHARD DERK

It's Time To Seize Control

Robert O. Middleton, a tax lawyer specializing in family firms at the Chicago legal firm of Nisen & Elliott:

Transco's plight shows that *control* of a business can be separate from its management and ownership. The firm's day-to-day affairs are handled by five competent sibling-managers. Trusts and a holding company own the business for the benefit of these siblings. But between management and ownership of Transco lies a vacuum of control.

In a general partnership, each partner has an equal right to control the affairs of the business. However, neither owner is exercising this right over Transco. Tom and his siblings must take the initiative and propose that Transco be reorganized to shift control to the second generation.

Transco could be converted from a partnership to a corporation. The corporation can issue nonvoting common stock to the trustees and the holding company, while voting common stock is issued to the siblings in exchange for capital contributions or as additional compensation. Even though the voting stock may represent a small percentage of the total value of the company (say 5 percent), it represents 100-percent control. The voting shareholders can elect a board of directors to direct the management of the company.

Converting to a corporation, however, may trigger income tax. One alternative is to reorganize Transco into a limited partnership. The siblings can become general (controlling) partners, while the trusts and holding company become limited, or noncontrolling (and nonliable), partners. A managing committee, somewhat like a board, would direct Transco management.

Whatever alternative is chosen, control should be placed directly in the hands of the individuals who are willing and able to exercise it—Tom and his siblings. Each also should obtain a direct financial interest in Transco, which will make running the company far more meaningful to them.

This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Cleveland business consultant Ernesto J. Poza. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute.

To order reprints of this case study, see Page 68.

To Your Health

Managing well includes managing your own health—advice to help you do that better.

By J. W. Savage

Why You Feel Better When The Sun Shines

More than most of us realize, the weather shapes our lives. Changes in the atmosphere can send our emotions to the depths or the heights. The body responds profoundly to changes in temperature, humidity, barometric pressure, and sunlight.

"Weather is a known catalyst for mood swings," says Dr. Norman Rosenthal, a psychiatrist with the National Institute of Mental Health in Bethesda, Md., and author of *Seasons of the Mind: Why You Get the Winter Blues* (Bantam Books). "As the human body responds to the outside weather elements, it makes inside adjustments that subtly affect our emotional well-being," he says. According to his studies, 92 percent of us are aware of such changes.

Temperature affects the hypothalamus, that part of the brain that serves as the body's thermostat. Sunlight alters the balance of hormones. Changes in humidity and barometric pressure lead to changes in blood flow and the amount of oxygen reaching the brain.

The elation that so many of us feel in springtime is in fact a physiological response to the increased hours of sunlight. As sunlight strikes our skin, it releases a dormant type of vitamin D into the endocrine system of the thyroid, adrenal, and pituitary glands. Ultimately, sunlight helps to trigger the release of the hormones epinephrine and norepinephrine by the medulla of the adrenal glands.

Both hormones stimulate the heart to produce more blood and also constrict the blood vessels, so that blood pressure rises. Additionally, epinephrine speeds up the transformation of glycogen into glucose, or sugar, within the liver. Within minutes of these changes, the body is in high gear. More oxygen flows to the brain, and you feel expansive and upbeat.

But if the mercury keeps climbing, the temperature and humidity in effect "force the human body to boil over," says Dr. Maria Simonson, founder and director of the Johns Hopkins Health and Stress Clinic, in Baltimore. As the body throws off heat through perspiration, blood vessels on the surface of the skin expand. Less oxygen reaches the brain. A pent-up, exasperated feeling grows, and petty annoyances can "become the cause for a major confrontation," Simonson explains.

J. W. Savage is a Wrightsville, Pa., free-lance writer.

PHOTO: © ROY MORSCH—THE STOCK MARKET

If you're making *a big decision, should you wait for the sun to come out?*

On overcast days when barometric pressure falls, so too does the level of oxygen in the blood. The weight of the atmosphere pushes down on the skin, constricting capillaries. Less blood—and so less oxygen—gets to the brain. The brain becomes sluggish; it's common to be forgetful or overlook details.

But if it's gloomy outside and you feel grumpy, there's something that can be done. "The key is oxygen," Rosenthal says. As more oxygen is metabolized within the system, the brain "functions more clearly and with purpose." If the sun comes out, take a brisk walk in direct sunlight; or try whistling. Five minutes of even quiet whistling gives a "boost to the oxygen levels in the bloodstream," Rosenthal says. He also recommends that you eat more vegetables and salads during the late winter months and on hot summer days because "they quickly convert into nutrients and give a mental lift."

No matter what the weather, sometimes we must take medication. And when the temperature is in a normally comfortable range—between 72 and 78 degrees Fahrenheit—most medicines have no side effects. But when the temperature is higher or lower, some drugs can cause the body to act contrary to the needs of nature.

Take caffeine. A cup of coffee on a hot day can turn your body into a miniature furnace. The hypothalamus instructs the body to sweat and slow down, but the caffeine in the coffee overrides the order. It mimics the natural hormone epinephrine; blood vessels constrict rather than expand, and instead of slowing down, the heart rate quickens. Some medicines that have the same effect are atropine (Butibel), benztrophine (Cogentine), chlorpromazine (Thorazine), and diazepam (Valium).

The opposite happens when you take common aspirin for a headache or fever. It expands the skin's blood vessels, contributing to the loss of heat—a potentially serious effect in cold weather. Other drugs—alcohol, dextroamphetamine (Dexedrine), insulin, and methysergide (Sansert)—also contribute to heat loss.

Humans are the only creatures who act "contrary to the weather laws of nature," Rosenthal says. Animals give themselves time to adjust to mood shifts by taking cover in a corner or a den, he says, but "social dictates force us to interact with others even though our instincts may be negative." Humans fight nature, he says, "at our own emotional expense." NB

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It's Your Money

A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.

By Paul N. Strassels

TAXES

When A Deposit Is Income

It's not the least bit unusual for a business to require a customer to leave a deposit. The deposit may cover the down payment on furniture or some other big-ticket item; it may be required when a customer places a special order for a new car. Or it may be a security deposit to cover possible damage to rental property. How must a business treat such deposits for tax purposes?

The U.S. Supreme Court has answered that question. "Advance payments" are taxable in the year the money is received. "Security deposits" are not taxable. For example, when a utility company requires a customer with a bad credit history to make a deposit, that deposit is not an advance payment and is not taxable on receipt. A business has income only when it receives a deposit without an obligation to repay and without restriction as to how it disposes of the money.

PHOTO: ©DAVID LAWRENCE—THE STOCK MARKET

When a customer *gives your store an advance deposit on a big-ticket item, that money is taxable income.*

Itemize Legal Fees

Attorneys' fees for personal tax advice are deductible as miscellaneous itemized expenses, subject to the 2-percent limitation, but fees for services outside the sphere of personal tax considerations are not deductible.

In a recent case, the taxpayer paid $5,400 for a comprehensive estate plan, which everyone agreed involved significant tax issues. Even though the attorney did not break out the charges for time spent on tax issues, the U.S. Tax Court ruled the taxpayer could deduct 20 percent of the estate-planning fee. The court said the deduction could have been much larger if the attorney's bill had been itemized.

Ask your attorney to itemize all bills; your deduction depends on it.

Paul N. Strassels, president of Money Matters Inc., Rapid City, S.D., is a tax-law specialist and financial adviser.

"Who's In Charge Here?" The Answer Can Be Expensive

The trend is unmistakable: More individuals than ever before are deciding to leave their jobs in the corporate workplace in favor of establishing their own businesses.

Although you may savor working for yourself rather than a corporate monolith, you will soon realize that you must become expert in a variety of disciplines.

In addition to being proficient in your own line of work, you will have to develop management and marketing skills. You also will have to learn about a number of other specialties, such as employee relations, accounting practices, taxes, law, and more. Unfortunately, you usually cannot delegate those responsibilities to others.

Certainly, you should hire an accountant and an attorney. But although you may be able to give outsiders a free hand in specialties such as marketing and management, you must never completely turn over your tax responsibilities to others.

In a recent case, the Internal Revenue Service challenged a taxpayer who had tried to do just that. He had established his own small business, and although he was the sole officer, director, and shareholder of the corporation, he delegated management of the firm to an employee. The two agreed that the employee had complete control over all disbursements, deciding who would be paid, when, and how much.

The business had cash-flow problems and fell behind with its payroll taxes. Eventually, the IRS slapped the business owner with the 100-percent penalty for unpaid payroll taxes. After all, he was the "responsible person." But the U.S. Court of Claims found otherwise. It held that even though he was the firm's sole owner, he was not automatically responsible for unpaid payroll taxes. In this case, he had no control over payroll.

Will the IRS go along with the court's reasoning? Not likely. (After the IRS loses in a particular court, the agency can make its argument again in another case in another jurisdiction.)

It's better to stay personally involved with your tax responsibilities, especially concerning employment taxes. Make sure your accountant gives you a full understanding of those responsibilities.

Reminders For Last-Minute Filers

We are a nation of procrastinators, at least as far as our taxes are concerned. By April 1 every year, with the filing deadline only a couple of weeks away, almost half of the nation's taxpayers have yet to settle with the IRS.

That's surprising, because you would expect only those taxpayers who owe the IRS to wait until the last minute to file their returns. Yet half of those who wait until the very end are due refunds.

If you have yet to finish your return, keep these points in mind:

- You have until midnight Monday, April 16, to complete your return and get it postmarked.
- If you're not going to make the deadline, file Form 4868 for an automatic four-month extension. Make three copies: one to send to the IRS by April 16, another to file with your 1040 by mid-August, and a third for your files. Remember, the IRS will not accept Form 4868 unless you include a check for the taxes you expect to owe

TAXES

for the year—and that check must be equal to at least 90 percent of what your 1040 shows that you do owe.

- Check your math one more time.
- Make sure you used the correct tax table.
- Sign the return. If you're married and filing jointly, make sure your spouse signs it also.
- If you owe and don't have the funds, file anyway. At least you'll avoid the late-filing penalty. Expect a bill in the mail in about a month.
- Use sufficient postage. The IRS doesn't accept postage-due mail.
- Don't flee the country. Taxpayers no longer are entitled to an automatic two-month extension of the deadline for filing and paying taxes simply because they were traveling abroad—for some, it was a quick trip to Canada or Mexico—on income-tax day.

(For more on tax-filing extensions, see For Your Tax File, on Page 59.)

ESTATE PLANNING

Sowing The Seeds Of Family Strife

It has become increasingly difficult for the founder of a successful business to pass it on to his or her heirs. Today, it's almost unheard of for a business to stay in the family for a fourth or even a third generation. Some may lay the blame at the doorstep of the estate and gift-tax laws, but you may want to examine another source—the founder. Consider this typical situation:

The founder of the business is a married man with three adult children, all of whom are married and have children of their own. Over the years, on the advice of his attorney and accountant, the owner has reduced the size of his potential estate (and estate tax) by giving shares of the corporation to his wife and each of his children. Perhaps even some of his grandchildren have received stock, ostensibly to be used to pay for their college education.

What happens when one or more of the children, their spouses, or the grandchildren decide to cash in their stock? You might think that such a thing could never happen in your family, but you would be naive. Even though there may not be any family strife while the founder is alive, strife can and often does occur after his death or incapacity.

A family business should have an arrangement under which the minority shareholders wishing to sell their holdings must first offer them to the company or to other shareholders, and there should be a mechanism to fund such purchases. Such procedures would protect all the stockholders, the family, the business, its employees, and its suppliers.

REAL ESTATE

PHOTO: ©DOUG WILSON—FOLIO, INC.

Rent or buy? *To come up with the right answer, you must get out your calculator and weigh a host of factors.*

Buying A Home In A Slow Market

More fortunes have been made in real estate than in any other investment. At least that's what the real-estate pundits say. The tax breaks alone make real estate an important investment consideration. Chances are that a large percentage of your personal wealth is tied up in the equity you have built up in your home.

The question is, is investing in residential real estate a smart move in today's market? To decide, you must consider the elements one by one.

The interest you pay on your home mortgage is fully tax-deductible as long as you hold the mortgage to $1 million or less.

The real-estate taxes are deductible, too.

And, best of all, the appreciation in the value of your home is tax-free until you sell. You may avoid taxes even then, if you purchase a more expensive home within two years or you qualify for the $125,000 exclusion for homeowners over age 55.

But what if you are living in a market where real-estate values are not increasing at a rate that exceeds the rate of inflation?

Currently, there are more markets in the country where appreciation is almost zero than there are markets where real estate is booming at double-digit rates.

In those slow markets, it may be to your advantage to rent.

In making your decision, consider the following:

- How much would it cost to rent each month?
- How much would it cost to buy, taking into account your down payment and closing costs? Getting into a house isn't free. Even when you are using Veterans Administration financing, there are some costs.
- How much does your monthly mortgage payment come to after taxes? The easy way to calculate that figure is to add your loan interest and tax payments and then multiply the result by your tax bracket.

If your monthly mortgage payment (including principal, interest, taxes, and insurance) comes to $1,500—with $900 of it going for interest and real-estate taxes—your after-tax payment comes to $1,248. (The process: Multiply the $900 by the tax-bracket figure of 28 percent; the result is $252 and is subtracted from your mortgage payment.)

- How long do you intend to stay in the house? It rarely makes sense to buy when you expect to move within a year or two, especially if housing is not appreciating rapidly.
- How quickly does housing turn over? You won't want to buy if there is little appreciation, or if you plan to stay in the area for no longer than three years, or if it takes six to nine months for a home to sell after it goes on the market.
- How do prices this year compare with those of the past three years? The answer should give you a pretty good idea of the rate of appreciation.

If you are renting, you may want to stay put.

If you own, you may find you are better off where you are and should delay moving to a fancier place until market conditions improve.

If you must sell your home because you're moving to another city or for other reasons, you have to weigh income-tax considerations when deciding whether to buy or rent a new place. Of course, you have two years to decide.

To buy or not to buy? Only your calculator knows for sure. NB

For Your Tax File

What you need to know to keep taxes from overtaxing you.

By Gerald W. Padwe, C.P.A.

DEADLINES

Take More Time To File, But Estimate Carefully

With the April 15 tax-return date upon us again, many taxpayers are engaged in the annual exercise of finding ways to extend the deadline. Filing Form 4868 on or before April 15 provides an "automatic" four-month extension to send in your 1989 Form 1040.

But don't mistake the Internal Revenue Service for a kind auntie. An extension of time to file a return does not mean more time to pay the tax. An important part of filing Form 4868 is estimating what that 1989 income tax will be and sending a check to take care of any amounts not already withheld or paid through estimated taxes.

How accurate must your estimate be? The U.S. Tax Court wrestled with that question last year in considering a couple who had been unreasonable, said the IRS, in estimating the tax due on Form 4868.

When filing an automatic-extension request for 1981, the taxpayers estimated their tax for the year would be $12,000. When the four-month extension expired, the couple's Form 1040 showed an actual liability of $41,000. Moreover, after auditing the return, the IRS finally determined that the 1981 tax was $48,000.

Why the large discrepancy? The husband explained that he had been severely overworked during the first few months of 1982, had also been involved in an automobile accident, and thus was not operating at full efficiency in preparing the 1981 return. In addition, the couple said, a number of 1099 forms showing significant outside income had been lost.

ILLUSTRATION: STUART ARMSTRONG

The IRS held the extension request was invalid on grounds that the taxpayers' estimate for the year shown on the request was "far short" of their true liability for 1981. Accordingly, there was no valid extension, and the taxpayers owed both late-filing and late-payment penalties as well as a penalty for negligence.

The Tax Court upheld the IRS's ruling, but for somewhat different reasons. It concluded that an estimate of liability is a rough or approximate calculation only, and the court said it would be a mistake for the IRS to determine whether the extension request was valid merely by comparing the amount of tax estimated on Form 4868 with the "proper" tax.

The court said the correct test is whether a "bona fide and reasonable estimate" of liability is made, based on information available when the request is filed. The taxpayers failed this test, however, because they had not tried to obtain new copies of the lost 1099 forms.

The court also reiterated its long-held view that overwork is not a valid reason for failing to comply with the tax laws.

Thus, it would have been possible for the taxpayers to obtain the information necessary for a reasonable estimate, and their failure to do so voided the extension form they had filed.

(See also "Reminders For Last-Minute Filers," on Page 57.)

BENEFITS

Tax Breaks In The Sunset

Last month's column described problems with a tax law that requires certain tax benefits to expire automatically on a given date unless Congress decides to extend the benefits.

The example we used was employer-reimbursed educational or training expenses. Favorable treatment of such expenses expired at the end of 1988, was resurrected retroactively in December 1989, and is to expire again this Sept. 30.

The discussion demonstrated an employer's difficulty in managing a business when it's uncertain what the reporting and withholding responsibilities are for amounts paid to an employee.

Here are some other tax extenders that Congress will have to consider this spring and summer:

Employer-provided group legal services. Payments made by an employer to a group legal-service plan on behalf of employees have not been included in the employee's income. As with educational assistance, this benefit expired at the end of 1988, leaving the status of such payments during 1989 up in the air. The 1989 tax law restored this benefit retroactively, but only for services provided through Sept. 30, 1990.

Targeted-jobs tax credit. As an incentive to employ individuals in targeted groups of the disadvantaged, a credit has been available to employers based on a percentage of qualified first-year wages. The credit, which expired Dec. 31, 1989, is extended to those hired from Jan. 1 through Sept. 30, 1990.

Self-employed health-insurance deduction. By definition, self-employed individuals are not "employees," and therefore they do not qualify for many of the tax law's favorable fringe-benefit rules. However, these taxpayers recently have been entitled to deduct 25 percent of health-insurance premiums and expenses, as a nonitemized deduction. Even this limited benefit expired, however, at the end of 1989.

Similar to the other provisions discussed above, the deduction for self-employed health premiums is extended through Sept. 30, 1990. NB

Gerald W. Padwe is associate national tax director for professional practice for Deloitte & Touche. Readers should see tax and legal advisers on specific cases.

Franchising

A survey of quick printing—one of the fastest-growing of business services.

By Meg Whittemore

In 1986, John Anderson did what many corporate middle managers dream of doing: He bought his own business. After 19 years with Diamond Shamrock Corp., an industrial-chemical company headquartered in Cleveland, Anderson decided that although he was paid well as an area manager for the company, he was being bitten by the entrepreneurial bug—and he couldn't ignore it.

Tired of the travel and the frequent relocations required in his job, Anderson and his wife, Judy, decided that Atlanta looked like a good place to buy a business and settle down while their two sons went through high school.

After an exhaustive search for the right business, the Andersons decided on Franklin's Printing & Office Supplies, a quick-printing franchise based in Atlanta. "A friend of mine owned one, and I talked to other Franklin's

PHOTO: ©GREG FOSTER—STOCK SOUTH

The profit prospects *for a Franklin's Printing & Office Supplies franchise persuaded John and Judy Anderson to enter the quick-printing business.*

franchisees," says John Anderson. "The potential profitability numbers were excellent, so we bought it."

His assessment proved correct. In 1989, Anderson averaged $68,000 in gross sales per month, exceeding the quick-printing industry's average of about $20,000 a month.

Twenty-five years ago, while-you-wait printers specializing in small jobs and fast service became part of the business landscape. These so-called quick printers offered primarily photocopying services. As technology improved the quality of copiers, however, quick printers soon handled some of the more sophisticated jobs usually done by commercial printers.

"We're more than nibbling at the big commercial printers now," says Don Lowe, CEO of Sir Speedy Inc., a quick-printing franchise based in Laguna Hills, Calif. "Thanks to improved cameras and presses, the quality of work that a quick printer can produce today is so much better than it was in the early days," he says.

Today there are more than 26,000 quick printers in the U.S., according to the Chicago-based National Association of Quick Printers, and 25 percent are franchised. While the segment still caters to customers who are pressed for time, the many services now offered are far from simple.

Anderson, for example, serves only business clients and handles newsletters, brochures, and office stationery. He does offer limited color printing, however, and his equipment has production capabilities similar to those of commercial printers. "We shoot our own negatives and burn our own plates," he says, "but we still need desktop-publishing capabilities. Our customers demand it." Computerized desktop publishing, typically used for smaller jobs, will be in place by the end of this year, he says.

Maintaining customer loyalty is the overriding concern for quick printers, and some have gone to great lengths to attract and keep their customers. In 1988, PIP Printing, headquartered in Agoura Hills, Calif., launched a research project to find out what businesses in its market base looked for in a printer.

PIP found that their customers were tired of doing business with many different printers and preferred to deal with one knowledgeable printer. PIP soon redefined its customer base. "We repositioned ourselves as the business printer, which is profoundly different from the commercial printer and the corner copy shop," says Thomas Marotto, chief executive officer of PIP.

PIP now concentrates on offering multicolor printing, desktop publishing,

FRANCHISING

Quick Printing's Start-Up Facts

The purchase costs, royalties, and fees for quick-printing franchises vary among companies. Following is information on what it takes to open the doors of three quick printers:

Franklin's Printing & Office Supplies. The total start-up cost is from $180,000 to $204,000. The higher amount includes desktop-publishing capabilities. Royalties, including an advertising fee, are 6 percent of monthly gross sales.

Sir Speedy Inc. Start-up costs are $120,000, plus a minimum of $50,000 in working capital. Royalties are 4 percent of monthly gross sales during the first year and 6 percent monthly thereafter. There is an additional 2-percent monthly advertising fee.

PIP Printing. Start-up costs for a PIP franchise are $125,900 plus living expenses for about six months. Royalties are 6 to 8 percent of monthly gross sales, depending on volume of sales. There is an additional monthly advertising fee of 1 percent

high-volume duplicating, and call-ahead ordering. PIP's 850 franchisees across the country had revenues of $263 million in 1989, but Marotto wants to capture a larger share of PIP's customers' printing business. "We want our customers coming to us for all their printing needs," he says. "That is our challenge."

Expanding the current customer base through added services as an attractive marketing approach appeals to Sir Speedy as well. "We don't get close to 100 percent of our customers' printing work," says Lowe. "If we just [got close to] that alone, we could sustain growth for the next five years."

Sir Speedy offers electronic publishing (which includes graphic design and typography); facsimile transmission and receiving; a wide range of forms, stationery, and business cards; and free pickup and delivery.

Lowe estimates that the business-printing niche that quick printers now serve is a $20 billion to $25 billion market, which is four to five times the size of the quick-printing business in general.

"I think the industry is on the doorstep of the best 10 years in its history," he says.

The real growth, Lowe says, will come with the onset of new color applications and conversion from black-and-white printing. Color work sells for at least four times that of black-and-white, and Lowe thinks most businesses will want to use color printing if they have a choice.

Franklin's president and founder, Hal Collins, points to color copying machines as a lucrative wave of the future. "Business people don't want their presentations to look ordinary," he says. "They don't want black and white. They don't want one color on white. They want full color."

Franchises offering quick-printing services are projected to post sales growth of 14 percent this year, and the number of franchises is expected to increase by 12.5 percent, says the International Franchise Association.

Still, market repositioning, expanded product lines, and innovative services cannot guarantee customer loyalty. "I find that if you meet your deadlines, really print quality work, and keep your prices in line, your customers tend to stay with you," says Anderson.

Clearly, technology will help quick-print franchisors conduct business in ways that were unimaginable 15 or 20 years ago, Lowe says, but "old-fashioned commitments to planning, quality, service, and training will still be the ultimate keys to success." NB

Working Part-time

Florida Couple Nets $156,000 First Year In Unique New Service Business

News in the *Wall Street Journal* of an unusual new service that helped businesses lower real estate taxes caught the attention of David and Diana Klevens.

By Ed Hirsch, Special Feature Writer

The "clincher" in their decision to become an Affiliate of Property Valuation Consultants, Inc. was learning that although fewer than 2% of all assessments are ever challenged, **4 out of 5 assessments are reduced on appeal.**

For a $9,900 start-up fee, the Klevens received 6 months of training/consulting, a 2-day indoctrination at PVC headquarters in Joliet, Ill., comprehensive forms, manuals and just about everything else needed. They offered their services on a contingency basis, usually receiving from ⅓ to ½ of the savings. (Most clients renew yearly which is how an incredible residual income can be built up.)

First year results: **$156,000 in fees from 38 cases, including a $231,000 reduction on an office building!**

David also developed an easy-to-use computer software program that did most of the work. Nancy Freeman, President of PVC, purchased the rights so PVC could offer it to other PVC Affiliates.

"This business can be run out of a small office or even a home," says Freeman. "All you need is a phone. We show our clients how to attract as many clients as they can handle. **Just 50 clients per year can net over $100,000,** and we serve more than 1,500 clients in any given year here in Joliet, a city of only 73,000 people."

In all, the Klevens have achieved tax reductions of over $19 million for their clients, and what started as a small, part-time business has been successful beyond their wildest expectations.

PVC has hired television personality Eddie Albert as its national spokesman and will send complete details (including names, addresses and phone numbers of other PVC success stories) plus a free videotape to interested persons. Write Rick Neiswonger, PVC Marketing Systems, 12033 Gailcrest, St. Louis, MO 63131 or call Toll-Free (800) 782-1050.

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Direct Line

In which experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

TRAVEL

Tour Agency

Could you please provide me with a source of information on starting or purchasing a tour agency?
F.D., Monroe, Conn.

ILLUSTRATIONS: DAVE ALLEN

The American Society of Travel Agents offers a free booklet, *Starting a Travel Agency*, containing tips on the basics of running a tour or travel business. For more detailed information, you can contact the organization at 1101 King St., Suite 200, Alexandria, Va. 22314; (703) 739-2782.

Also, you might find it helpful to obtain a copy of *How To Open Your Own Travel Agency*, by Douglas Thompson. The book is available for $29.95 from Dendrobium Books, 76 Gough St., San Francisco, Calif. 94102.

MANUFACTURING

Concrete Facts

I would like to start a small concrete business dealing with step and general block molds. How would I get the best information on starting such a business?
E.B.K., Albany, Ga.

You can contact Bill Casteel, managing director of the National Precast Concrete Association, at 825 E. 64th St., Indianapolis, Ind. 46220; (317) 253-0486. Casteel can point you toward sources of information on start-up costs and on the industry in general.

Another good starting place is the Small Business Administration's SCORE office in Atlanta. A counselor from SCORE (Service Corps of Retired Executives) can help you with the basics of starting your business. There is no charge, and no appointment is necessary. Office hours are 9:30 a.m. to 3:00 p.m. weekdays, at 1720 Peachtree Road, 6th Floor, Atlanta, Ga. 30309; (404) 347-2441.

SALES

Company Reps

I would like to be a manufacturer's representative. Please advise me on how to get a list of manufacturers or their product lines.
A.D., Downey County, Calif.

Write to the Manufacturers' Agents National Association, P.O. Box 3467, Laguna Hills, Calif. 92654, or call (714) 859-4040. Ask for the free membership-information packet, which contains a copy of the association's monthly magazine, *Agency Sales*, along with other useful information. The classified section of the magazine contains a list of manufacturers who are looking for representatives.

SPORTS

Athletic Gear

Where can I get information on the athletic retail business?
L.K., Mansfield Center, Conn.

The National Sporting Goods Association, the largest sporting-goods trade association in the U.S., offers a $75 starter kit for retailers. The kit includes a booklet—*The Cost of Doing Business Survey*—and the association's annual buying guide. Peggy Rizio, membership-services representative, says the association's information center also offers demographic information and product-research services.

Write or call the National Sporting Goods Association at 1699 Wall St., Mount Prospect, Ill. 60056-9968; (312) 439-4000.

PURCHASING

Medicinal Supplies

Our firm, a medical-supply company, would like to start a purchasing group. Could you tell us how to proceed and where to direct our effort?
A.K., Seattle

If by "purchasing group" you mean a group of firms involved in purchasing, contact Kathy Little, information specialist for the National Purchasing Institute, which provides information on local buying practices for businesses. Write or call the institute at 2055 E. Centennial Circle, Tempe, Ariz. 85284; 1-800-873-5780.

If instead you mean a group of companies buying in bulk to save money, contact Terry Montgomery, director of the American Society for Hospital Materials Management, 840 N. Lakeshore Drive, Chicago, Ill. 60611; (312) 280-6155.

ELDER CARE

Retirement Homes

I am interested in owning and operating a complete retirement home. How can I get started?
D.E.R., New Boston, Texas

The National Association for Senior Living Industries offers various resources pertaining to senior living arrangements. David Schless, the association's research manager, can put you in touch with architects, lawyers, finan-

cial planners, and other experts.

Write or call Schless at NASLI, 184 Duke of Gloucester St., Annapolis, Md. 21401-2703; (301) 263-0991, ext. 115.

EXPORTING

Drilling Afield

Our company sells oil-field drilling fluids to retail companies in the U.S. We want to export these products overseas. How do we find potential customers, and is export financing available?
R.B., Houston

Bill Love, loan officer in your regional Small Business Administration office, says the SBA has a nationwide lending program for businesses interested in developing foreign markets. The program offers financing through banks, with SBA acting as the guarantor. Write or call Love at SBA, Suite 112, 2525 Murworth, Houston, Texas 77054; (713) 660-4401.

LIVESTOCK

Cattle Capital

My husband and I are trying to establish a small business of our own raising cattle. Could you tell me where to look for financing?
M.M., La Junta, Colo.

Jim Rubingh, director of marketing for the Colorado Department of Agriculture and secretary of the Colorado Agricultural Development Authority, suggests you contact the nearest office of the Federal Land Bank and Production Credit Association. He also invites you to call him, at (303) 866-3561, to learn about CADA's bond program for first-time farmers, which can provide up to $250,000 for land or equipment.

If those approaches fail, Rubingh says, contact the Farmers Home Administration office in your county. FmHA, a federal agency, provides credit to those in rural areas who cannot obtain credit from other sources at reasonable rates and terms.

Also, you may contact the local Small Business Administration finance office at 721 19th St., Room 407, Denver, Colo. 80202-2599; (303) 844-2607.

PATENTS

Home Dressing

I am going to make, bottle, and sell a salad dressing from my home. Does my product need a patent? Do I need to protect my ingredients from having someone else steal them?
R.J.W., Chicago Heights, Ill.

For information on patents, contact the Public Service Center of the Patent and Trademark Office, P.O. Box 2089, Eads Station, Arlington, Va. 22202; (202) 557-5168. The center offers a free pamphlet called *Basic Facts About Patents.* For the brochure *General Information Concerning Patents,* which also contains forms for a do-it-yourself patent application, write to the U.S. Government Printing Office, Washington, D.C. 20402. Enclose a check for $2, and refer to stock No. 003-004-00634-0.

On protecting your secret ingredients, Washington, D.C., lawyer Andrew Sherman says: "The general rule is that an idea or concept doesn't qualify for protection under trademark, copyright,

or patent laws until that idea matures into something original, useful, and potentially profitable." Consider putting your recipe under the category of confidential business information known as a trade secret. Trade-secret laws vary among states, so it is recommended that you seek a local lawyer for more information.

SERVICES

Diapers On Demand

Could you send me information on starting a company that would provide diaper pick-up and delivery service?
D.W., Odessa, Texas

"The diaper-service industry is on the upswing again," says Louise MacFarland of the National Association of Diaper Services. She says that "parents are expressing preferences for natural

fibers." The association offers information on suppliers, technical know-how, and other start-up facts. Call MacFarland at (215) 569-3650, or write to the association at 2017 Walnut St., Philadelphia, Pa. 19103.

BURIAL GROUNDS

Pet Cemetery

Where can I obtain information on regulations, business aspects, and start-up ideas for a pet cemetery?
R.F., Deland, Minn.

Wendell C. Morse, executive director of the 145-member International Association of Pet Cemeteries, says California, New Jersey, and Ohio are the only states with laws pertaining directly to pet cemeteries. Twice each year the association offers a one-day seminar on starting and operating a pet cemetery. Each participant receives in advance a collection of reading materials costing $50; the seminar itself costs $300. Attendance at the seminar is required for membership in the association. You can contact Morse at the association, Box 1346, South Bend, Ind. 46624; (219) 277-1115.

HOW TO ASK

Have a business-related question? Send your typewritten query to Direct Line, *Nation's Business,* 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

The editors of Direct Line have compiled the most-asked questions into the compact *Your Small Business Survival Guide,* at $3 a copy. To order, write to the Circulation Department at the address above. NB

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COMMENTARY

Where I Stand

Readers' responses to this poll give them a direct voice in the policy-making process of the U.S. Chamber of Commerce.

1. Cut Social Security Taxes On Employers, Employees?

Many in Congress protest that Social Security surpluses earmarked for tomorrow's benefit payments are being spent on today's general government activities. Several lawmakers have proposed a Social Security tax rollback that would save up to $62 billion by the end of 1991. Sponsors say these reduced rates would still generate sufficient revenue to meet current benefit obligations. There would no longer be a Social Security surplus to finance general government operations, however. Opponents of a payroll tax cut contend that Congress would raise taxes to offset the revenue loss because it lacks the will to slash spending. Should Social Security taxes be rolled back?

2. Provide Tax Incentive For Long-Term Saving?

President Bush wants to encourage Americans to save by allowing tax-free withdrawal of interest earned by money left on deposit at least seven years in Family Savings Accounts. Bush says his plan would sharply increase the pool of capital available to U.S. business while decreasing revenue less than $2 billion through 1993, when the budget must be balanced under the Gramm-Rudman-Hollings law. Opponents believe most people would merely shift current savings from taxable to tax-free accounts. Thus, they say, the capital pool would not increase much, and a large amount of revenue would be lost ultimately. Should Congress endorse the Bush plan for long-term savings?

3. Cut Taxes On All Long-Term Capital Gains?

President Bush also favors stimulating investment through reduction of the tax rate on long-term capital gains. Under the 1986 tax-reform act, gains from the sales of all assets are taxed as ordinary income at rates ranging to 33 percent. The president believes a deep rate cut would spur capital investment, and the resulting economic activity would increase revenues by several billion dollars in the next few years. Opponents argue that Bush's proposal would benefit mostly the richest Americans and businesses, would eventually mean lost revenues, and could open the door to 1986 tax-law changes that business would not welcome. Should Congress reduce the capital-gains tax rate?

Verdicts On February Poll

Here is how readers responded to the questions in the February issue.

	Yes	No	Undecided
Should Congress use tax revenues for elderly's health care?	40%	47%	13%
Should the U.S. expand economic ties with the Soviet Union?	55%	30%	15%
Should medical-fee and mortality data be available to consumers?	76%	13%	11%

Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

Incentives For Family Savings

President Bush recently proposed a new long-term savings program designed to help families and individuals start businesses, buy homes, and send children to college.

PHOTO: ©DON MASON—THE STOCK MARKET

The program, part of an overall savings-and-investment package that calls for a reduction in the capital-gains tax rate and a new tax incentive for first-time home buyers, would allow married couples with incomes under $120,000 to contribute up to $5,000 per year to a family savings account. Individuals with incomes under $60,000 could contribute up to $2,500 per year. Contributions would not be tax-deductible when made, but all interest earned on deposits held for seven years would be tax-free.

The U.S. Chamber of Commerce believes the program would be an excellent way to increase the savings rate of Americans. A higher U.S. savings rate not only would help families and individuals reach their long-term goals but also would benefit the U.S. economy by expanding the pool of available capital.

Contact your representative and senators. Urge them to support creation of a family savings account program, which would help many families meet their business, housing, and educational needs and also would stimulate U.S. economic growth.

Solid-Waste Management

As landfills reach capacity, many cities and states find they face a crisis over disposal of solid waste. At the same time, public opinion has made it politically difficult to establish new landfills

PHOTO: ©CHRISTOPHER MORRIS—BLACK STAR

and municipal waste incinerators.

Measures to address municipal solid-waste disposal have been introduced in both houses of Congress. Hearings were held recently on H.R. 3735, introduced by Rep. Thomas A. Luken, D-Ohio, which would set minimum standards for waste reduction and disposal and would require states to develop plans for dealing with their solid waste.

The U.S. Chamber of Commerce recognizes that municipal solid waste must be disposed of in order to protect public health and believes that there will always be a large portion of waste that must be burned or buried. The Chamber supports efforts to require state governments to develop solid-waste management plans. It also backs the establishment of federal guidelines for solid-waste landfills and the creation of federal regulations for solid-waste incinerators to assure the public that waste is being managed safely.

Contact your representative and senators. Urge support for solid-waste legislation that would ensure that states accept their responsibilities to provide for adequate disposal capacity.

Educational Aid For Employees

Section 127 of the Internal Revenue Code, which excludes the value of employer-provided educational assistance from an employee's gross income, expires Sept. 30. Several bills in Congress

PHOTO: ©DAVID WOODS—THE STOCK MARKET

would extend this important provision.

Many U.S. companies have responded to the need to remain competitive by offering financial assistance to their employees for additional education and training. A recent study indicates that educational-assistance benefits are utilized particularly by middle- and lower-income workers. About 71 percent of Section 127 recipients earn less than $30,000. The study also shows that nearly 50 percent of the Section 127 recipients who have selected a college major are taking courses in engineering, health science/nursing, education, or computer science—all professions projected to face labor shortages.

The impact of education on U.S. competitiveness in world markets has generated significant bipartisan support in Congress for employee educational assistance. The U.S. Chamber of Commerce strongly supports a permanent extension of this important tax incentive and urges that coverage be expanded to include graduate-level courses.

Urge your representative and senators to support legislation that would permanently extend Section 127. NB

COMMENTARY

Editorials

Government Obstacles To U.S. Trade In The East Bloc Must Be Removed

Ending the Cold War between nations of the North Atlantic Treaty Organization and members of the Warsaw Pact is in America's best economic interest.

As our article on East-West trade (Page 45) points out, President Bush said he wants to facilitate the transfer of U.S. technical and financial expertise, and he is urging U.S. businesses to pursue trade and investment opportunities in the Warsaw Pact countries.

U.S. business people are finding, however, that the biggest impediment to East-West trade and investment is American export-control policy enacted during the Cold War to keep products with military applications from the Communists. The U.S. has been much more reluctant than its NATO allies to relax such controls.

The Bush administration told Congress that it is moving cautiously because the Soviet Union remains a formidable military power and because the Eastern bloc intelligence network remains a potential conduit of U.S. technology to Moscow. At the same time, the administration said that changes could follow its current strategic review of export-control policy.

PHOTO: ©STERN/KOLME—BLACK STAR

East Germans' desire *for cars other than the trouble-plagued Trabant made in their country is one of the reasons why trade with the former Communist-bloc country will grow.*

An export policy that stimulates trade while guarding genuine security interests would be welcomed by American business.

As our article explains, other policies necessary for improving these emerging free-market economies are most-favored-nation tariff status, low-rate financing through the U.S. Export-Import Bank, insurance through the U.S. Overseas Private Investment Corporation, and prompt negotiation of comprehensive trade agreements.

As the literal and figurative walls that have separated us from the people of Eastern Europe for more than 40 years continue to disappear, we are happily realizing that we are not total strangers.

Consider the experience of PepsiCo Inc., the U.S. soft-drink and snack-food firm, with its World Music Video Awards program shown on Soviet television with an invitation to Soviet youths to vote for their favorite rock video. Pepsi officials thought those young people "wouldn't know the difference between Michael Jackson, Jesse Jackson, and Andrew Jackson," and not many votes were expected, according to Donald M. Kendall, chairman of PepsiCo's executive committee. But *5 million* votes were cast.

The anecdote illustrates the extent to which countries long isolated will respond to overtures from the West.

The faster the U.S. government can remove official impediments to trade and investment without sacrificing genuine considerations of national security, the sooner it will help people of the East Bloc satisfy their yearnings and contribute to the permanent end of the Cold War.

Another Problem Trust Fund

This month's cover story deals with the public-policy debate on the Social Security trust funds. The issue of accountability for earmarked revenues goes beyond the retirement system, however.

There is, for example, an unemployment-insurance trust fund into which employers pay both federal taxes that underwrite administration and state taxes that finance benefits. But the federal government is not keeping its part of the bargain. As with Social Security, federal taxes are being used to help mask the size of the overall federal deficit, and 35 states have had to come up with their own funds to pay the administrative expenses that normally are borne by the federal government.

Ronald L. Adler, president of a management-consultant firm, told a congressional hearing that the federal revenues should be appropriated for the purpose for which they were collected.

Testifying on behalf of the U.S. Chamber of Commerce, Adler called for an end to "the great trust-fund game that Congress plays with the American taxpayer." The present system, he said, constitutes "a case of unjustifiable double taxation. Employers and ultimately the public are paying twice for employment security services in these states."

Congress should spend earmarked tax money for its earmarked purpose. It's a matter of basic fairness for the nation's taxpayers. NB

Free-Spirited Enterprise

By Janet Lowenstein

JUST A MINUTE

Good service means quick service to **Nunzio Express Pizza Inc.**, a take-out pizzeria based in Albuquerque, N.M. The company says that in just 60 seconds it can give its customers a freshly prepared pizza, cooked in its specially designed ovens.

Customers drive up to the ultramodern T-shaped building and place their orders via a two-way video. One minute later, they pick up an 8-inch pizza. No extra waiting time for pepperoni.

FRANK CALLS

Quick service isn't just for pizza. If your taste runs to hot dogs, you might want to call **Gold Coast Dogs**.

Barry and Fred Potekin, the brothers who own the Chicago restaurant chain, have updated their service with an idea reminiscent of the drive-ins of the 1950s—curbside delivery for people with cellular car phones.

Just phone the restaurant from your car. Place your order, describe your car, and give the approximate time of your arrival. A waiter will deliver your hot dog to you when you drive up.

The Potekins say they're catering to Chicagoans' love affair with the hot dog.

♦

So too, we think, is the **Viskase Corp.** This Chicago-based meat-packaging manufacturer wants

hot-dog lovers to read their franks.

Viskase has found a way to print words or pictures on hot-dog casings. The messages show up after the

dogs are cooked.

The first hot-dog messages should reach consumers by spring. So far, meat manufacturers have shown interest in the process. Political candidates have too. No doubt their messages will help us voters decide whether they cut the mustard.

GETTING NOTICED

Hot-dog ads may not be for everyone. We've recently heard from business people who are finding other ways of getting noticed.

Rick Selvin of Philadelphia has copyrighted a way for restaurants to advertise their daily specials on TV. Called **Menu TV**, his concept uses slides with video animation. Selvin produced Menu TV for a one-month trial on a Philadelphia cable station. Local restaurants paid $15 for a 25-second message on the 90-minute show, which was updated daily. Messages were repeated every 15 minutes and gave the restaurant's name, address, phone number, daily specials, and hours.

Selvin is considering several options for placing the program on TV. Stay tuned.

♦

Turning a new page in marketing methods, Holly Pa-

ILLUSTRATIONS: A. KELLY RICHARD

siuk of Guilford, Conn., offers help to business people who sell by catalog. She sells consumers a catalog of catalogs.

Pasiuk's directory, **The Catalog Connection**, lists hundreds of catalogs offering products ranging from the commonplace (jewelry, food, housewares) to the unusual (spiral staircases and stuffed mice). For each catalog, Pasiuk lists its name, address, phone number, and price as well as the price range of items sold, taxes, and shipping charges.

♦

Bill McDonald, of McDonald Products, a plumbing busi-

ness in Highland Park, Ill., turns another corner when it comes to marketing. He found a way to make it easy for pedestrians to find him.

McDonald produces **Take-A-Kard** cases for business

cards. He says the weather-safe, Velcro-backed case is easily affixed to the side of a truck. The outside of the case displays a copy of the business card and a message inviting passersby to lift the flap and take a card from the pouch inside. McDonald says his case will protect your cards in rain, snow, and speeds up to 70 mph.

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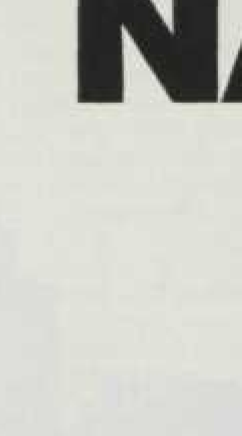

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